

JPRS-CAR-93-014  
24 February 1993



**FOREIGN  
BROADCAST  
INFORMATION  
SERVICE**

# ***JPRS Report***

# **China**

19980518 100

**DISTRIBUTION STATEMENT A**

**Approved for public release;  
Distribution Unlimited**

REPRODUCED BY  
U.S. DEPARTMENT OF COMMERCE  
NATIONAL TECHNICAL INFORMATION SERVICE  
SPRINGFIELD, VA 22161

# China

JPRS-CAR-93-014

## CONTENTS

24 February 1993

### POLITICAL

Huang Wansheng on Neo-Conservatism [Hong Kong MING PAO YUE-KAN 1 Jan] .....	1
Article Urges Strengthening Party, Government [DANGXIAO LUNTAN 5 Nov] .....	5
Examples of Improved Industrial Sector Party Work [ZHIBU SHENGHUO 12 Dec] .....	9
WEN HUI BAO Essay on Spiritual Civilization [5 Feb] .....	12

### ECONOMIC

#### NATIONAL AFFAIRS, POLICY

Call To Spur Domestic Product Purchases [ZHENLI DE ZHUIQIU 11 Dec] .....	18
General Manager System Urged for Enterprises [RENMIN RIBAO 4 Jan] .....	18

#### FINANCE, BANKING

Foreign Debt Situation Analyzed, Policies Proposed [CAIMAO JINGJI 11 Dec] .....	20
---	----

#### INDUSTRY

Opening Up Foreign Machinery, Electronics Markets .....	29
Malaysia Market Examined [ZHONGGUO JIDIAN BAO 24 Nov] .....	29
Open Vietnam Market [ZHONGGUO JIDIAN BAO 4 Dec] .....	31
Adapting Australian Methods [GUOJI SHANGBAO 1 Dec] .....	31
Problems With France [GUOJI SHANGBAO 29 Dec] .....	33

#### FOREIGN TRADE, INVESTMENT

Shenzhen Superhighway Construction Urgent Task [SHENZHEN TEQU BAO 3 Dec] .....	34
Shenzhen Securities Exchange Symposium on Strategy [SHENZHEN TEQU BAO 2 Dec] .....	35

#### TRANSPORTATION

Machine Ministry on Railway Transport Problems [ZHONGGUO JIDIAN BAO 27 Dec] .....	36
---	----

#### AGRICULTURE

GATT Impact on Agricultural Machinery Industry .....	38
Ministry Director's Views [ZHONGGUO NONGJIHUA BAO 16 Dec] .....	38
Opportunities, Challenges [ZHONGGUO NONGJIHUA BAO 19 Dec] .....	40
Tractor Manufacturing Impact [ZHONGGUO NONGJIHUA BAO 19 Dec] .....	41

### SOCIAL

Letter Protests Forced Religious Believer ID-card Sales [TIAN FENG 1 Dec] .....	44
Market Reforms Require New Constitutional Changes [FAXUE 10 Dec] .....	44

### MILITARY, PUBLIC SECURITY

Ministry Issues Circular on Police Station Management [RENMIN GONGAN BAO 1 Dec] .....	48
Ningxia District Commander on Improving Militia Work [NINGXIA RIBAO 14 Dec] .....	48

**TAIWAN**

Li Teng-hui Card No Longer Effective in Elections [HSIN HSIN WEN 20 Dec] .....	51
Article Defends Women's Vote [TZULI WANPAO 8 Dec] .....	52
Article Criticizes Kuomintang, Centralization [HSIN HSIN WEN 12 Dec] .....	53
Political AIDS: Deep Mutual Distrust [HSIN HSIN WEN 19 Dec] .....	54

**HONG KONG, MACAO**

Public Opinion After Governor's Beijing Trip [MING PAO 26 Oct] .....	55
Referendum on Future Political System Questioned [MING PAO 24 Oct] .....	56
Review of Chris Patten Phenomenon in Hong Kong [MING PAO 2 Nov] .....	57

**Huang Wansheng on Neo-Conservatism**

93CM0159A Hong Kong MING PAO YUE-KAN  
[MING PAO MONTHLY] in Chinese No 1, Jan 93  
pp 63-68

[Article by Zhang Weiguo (1728 0251 0948): "A New Doctrine To Suit Chinese Modernization?—A Talk With Huang Wansheng (7806 8001 4141) About Neo-Conservatism"]

[Text] *As the once prevalent neo-authoritarianism has vanished with the sounds and smoke of the gunfire surrounding the "Beijing Massacre" on 4 June 1989, a newly packaged neo-authoritarianism in the guise of neo-conservatism has strangely enough appeared and been given the green light by the authorities. Should this actually be seen as a new doctrine to suit Chinese modernization?*

As the neo-authoritarianism that was the rage for a time in the Chinese capital has gone up in smoke with the sounds of gunfire at the "Beijing Massacre" on 4 June 1989, its advocates have either gone into exile in other lands, been thrown into jail, been lucky enough to "escape unpunished," or changed their residences. Yet others who have refused to be made irrelevant have adopted an "unyielding" spirit of participation by proposing a neo-conservatism. This doctrine has stangely enough found increasing favor recently, with the mainland Chinese media that once "stood mute like ten thousand horses" being alone in having a special penchant for giving it a free pass. Meanwhile, the modern media's middleman role has seemed to turn it into a new-age "united front" talisman with a great standing in overseas circles for its wizardry.

While the ideological vacuum that has appeared on mainland China in recent years, along with the hopes for a spiritual rehabilitation, have given this neo-conservatism a chance to grow, this doctrine is still far from being representative of mainland China's ideological mainstream. It is simply the objective restraint on all who would criticize or dispute it, making it hard for any of them to find a mouthpiece in the officially-controlled media, that has left many intellectuals worried about it. In light of this, a reporter's mission should be to transmit to the common people the various voices of dissent. This is why I had a talk with Mr. Huang Wansheng, an assistant researcher at the Shanghai Academy of Social Sciences' Philosophy Institute and a former secretary general of the Shanghai Institute for the Comparative Study of Chinese and Western Cultures.

**Distinction Between Old Conservatism, Neo-Conservatism**

Mr. Huang made the following remarks: One of the earliest in recent years to bring up the concept of conservatism was the Chinese-American scholar Yu Yingshih [0151 5391 2514] in a course of lectures given at Hong Kong's New Asia Academy of Classical Learning. It was treated at that time as an academic issue

in a summary of the lessons learned through China's modernization experiences since the Opium War, which was from an ideological history perspective alone, so was very narrow in scope. The categories that Yu Yingshih researched were radicalism and conservatism in China's modern ideological trends. His view of these hundred-plus years of Chinese history is that the radicalism that favored reform and learning from the West how to solve China's social problems has become the prevailing mainstream, while the conservative thinking that advocated seeking change through tradition and focused on China's inherent modernization drive never had much sway in China. Thus, he developed a unified theory of Chinese public opinion, which was not very concerned with authoritarian government, as an option growing out of his leaning toward a narrow academic viewpoint, and posited that China had a radical mindset.

This viewpoint was later accepted by some mainland Chinese scholars, who expanded it to "neo-conservatism." The addition of this prefix "neo-" produced another key change, i.e., from Yu Yingshih's pure academic debate to a political choice about China's status quo, which was a major distinction.

Mr. Huang's proposed neo-conservatism involves the following three matters: a reexamination of China's modernization path; a summary of China's whole contemporary history; and reflections on the basic interests of the Chinese people.

**Conservatism: the Mainstream in Modern Chinese History**

Huang Wansheng noted the following: Radicalism is certainly not the mainstream in modern Chinese history. Rather, conservatism has usually been more mainstream. For instance, while Hu Shih advocated total Westernization, when has complete Westernization ever been practiced in modern Chinese history? Ideas certainly do not become reality just because someone talks about them! Radicalism has never been translated into policy in the course of Chinese history, having been at most a matter of academic discussion by a few scholars. When analyzing Chinese history, we should look not simply at what a few people may have said, but rather at what most people actually did. So the argument that radicalism is the mainstream in modern Chinese history is somewhat of a fabrication, possibly showing an unfamiliarity with and ignorance of modern Chinese history.

While Wu Chihhui [0702 4460 2547] proposed during the "May Fourth Movement of 1919" throwing all traditional thread-bound Chinese books into the latrine, when has Chinese education ever gotten free of such traditions? While we have since improved our printing technology, changing to hard bindings, the basic spirit expressed in our textbooks has still not gotten free of tradition, with our educational mainstream always having been a spirit of loyalty to rulers, patriotism, and the highest ethics. As modern Chinese history has never seen a stage in which genuine Western individualism has

been our basic educational spirit, ideas that may have been advocated by some have certainly never been our reality.

The public debate at the time was even sharper over abandoning Chinese characters and giving up this cultural symbol which, in fact, certainly never occurred. Huang Wansheng feels that today is like the change to simplified characters after 1949, in that we are all tending to use the original complex forms again, except that the current return to the old characters has greater vitality than did the change to the simplified forms.

Mr. Huang defines conservatism as follows: It is essentially an attempt to find the most elemental motivations in our original traditional cultural and social origins with which to modernize. Instead of denying our traditions, by making criticism of them a prerequisite for modernization, it preserves our traditions, by affirming that they are precisely the prerequisite for modernization. The distinction between conservatism and radicalism in modern Chinese history is their respective outlooks on traditions.

**Chiang Kai-shek's "Four Basic Virtues of Manners, Justice, Integrity, and Honor, and Eight Powers" Were Fundamental Confucian Thinking**

Huang Wansheng made the following comments: As neo-conservatism upholds and confirms traditions, relatively affirming our former traditional society's basic structure and functions, I believe that we must examine traditional Chinese society to see whether it contains modernization-oriented functions. While this matter has touched off an unending ideological debate in modern times, very few have really focused on changing our social structure and functions, with the only example of one who did being Sun Yat-sen, with others not having essentially changed these functions. And even Sun Yat-sen's later thinking on this subject was very ambiguous. While K'ang You-wei, who was involved in the Reform Movement of 1898, eventually returned to Confucian thinking on controlling public will, and Yuan Shih-k'ai tried a constitutional monarchy, which revived the monarchy that had been overthrown by the Revolution of 1911, it is very hard to find a real example of anyone who has tried to establish a Chinese status quo based on Mendel's Laws.

The basic spirit of Chiang Kai-shek's New Life Movement, which advocated "the four basic virtues of manners, justice, integrity, and honor, and the eight powers," was Confucian thinking. And the Neo-Confucianist Movement that Chiang launched after going to Taiwan was even more so an outright revival of tradition. Mao Zedong also said after 1949 that we must carry forward our valuable legacies, all the way from Confucius to Sun Yat-sen. And many of the leaders who succeeded Mao have also repeatedly emphasized the importance of traditions to China. "Do not neo-conservatives probably also regard these figures as radicals! I do not know if the

neo-conservatives' radicals include Mao Zedong and other leaders since him but, if they do, it is very unfair."

**"Neo-Authoritarianism," "Neo-Conservatism" Have the Same Roots**

This makes it easy to arrive at the conclusion that all modern Chinese experience shows that conservatism is a far greater force than radicalism.

Another matter that needs to be thought through is whether the inherent laws of China's contemporary development are radical or conservative. Mr. Huang notes the following: "We can examine our modernization from many angles, such as ideological, economic, and political, with even the ideological perspective not involving a simple standoff between radicalism and conservatism, which is certainly not the only ideological understanding of Chinese modernization."

In fact, some of the advocates of neo-conservatism were once fierce advocates of neo-authoritarianism. We can see here that neo-authoritarianism and neo-conservatism can be traced mostly to the same roots, in that both advocate the use in China of authoritarian administrative measures and more effective centralization of state power to solve China's development problems. So this change of name from neo-authoritarianism to neo-conservatism has certainly not changed its basic contents of advocacy for authority and practice of authoritarian government.

Authority can be analyzed and broken down into the two categories of democratic authority and nondemocratic, personal, monarchical, and political-party authority. In neo-authoritarian and neo-conservative discussions, authority obviously does not refer to democratic authority. In reply to questions by non-Party figures at Yan'an, Mao Zedong said that he had found that democracy was the key to China's development problems. So the current neo-conservative viewpoint is already a great step backward from Mao Zedong's in the Yan'an period.

**Is Neo-Conservatism Avoiding Talking About the Direction of Change?**

Another neo-conservative position is its advocacy of gradualism in the rate of change. The most fundamental matter as to all change is its nature, not its speed. The key when advocating change is to clarify the direction of change. So why are neo-conservatives unwilling to talk about the direction of change, while speaking readily only of its pace?

Huang Wansheng made the following remarks about this: The real difference is over not the rate of change, but rather the direction, i.e. what sort of modernization order should be established. Are we going to establish in the end a modernization order of complete human liberation with a high degree of democracy and freedom, or one in which economic efficiency is the fundamental yardstick? I would emphasize that those who advocate a democratic modernization order do not necessarily seem

to believe in the need for sudden change to the exclusion of gradual change in order to realize it, just as those who favor a purely economic modernization order also do not appear to approve of gradual progress to the exclusion of rapid change. As the rate of change can be based on varying contents, whether change should be gradual or rapid should not be made the focus of the debate over Chinese modernization. Intentionally exaggerating the importance of this matter seems to be driven by an attempt to conceal content with form.

#### **Conservative Forces Caused the Failure of the Westernization Movement in the Latter Half of the 19th Century**

Chinese society has certainly accumulated rich experience and learned profound lessons in modernization over the last century. Beginning with the Westernization Movement in the latter half of the 19th century, China has tried to take stands in many areas, in a search of possible ways to change China's backwardness. While the industrialists of the Westernization Movement took a purely economic path, they failed in the end not because they lacked authority. As the Empress Tzu Hsi was their pillar of authority, the real cause of the Westernization Movement's failure was the tremendous conservative forces in the court, which stated the dangers of change so forcefully that change was impossible! It was an examination of the experience of the aborted Westernization Movement that pushed Chinese reform past the simple economic pattern into the stage of the Constitutional Reform and Modernization of 1898. It was already understood at the time that as economic efforts alone could be consumed by greater conservative forces within the system, modernization would require change of the system of administrative operation. This was what led to K'ang You-wei and Liang Ch'i-ch'ao's Hundred-Day New Administration. While this constitutional reform movement was not without a pillar of authority, with the Kuang Hsu Emperor as its backing, and issuing in a short 100 days more than 130 constitutional reform proposals in a whole series of specific areas, all the way from the education and examination systems to the grain transport and salt administration systems, which were quite broad in content, it was still a failure. It was only after this that people such as Sun Yat-sen with genuine ideas on modernization renounced the backing of the feudal autocracy to take up good reform aspirations and seek for a democratic modernization order. The "May 4th Movement of 1919" was essentially a continuation of the 1911 Revolution, in that it simply turned that revolutionary experience into a larger-scale ideological and cultural examination.

#### **Narrowness, Conservatism of Neo-Conservatism**

Mr. Huang continued as follows: This review has made me feel that previous stages of Chinese modernization were not without attempts to achieve neo-conservatism. Conservatism is certainly not a new thing, so it is no wonder that neo-conservatives invariably seek historical backing from figures, such as Yen Fu, Liang Ch'i-ch'ao,

K'ang You-wei, and even Yuan Shih-k'ai. But as we humans are forever advancing and developing, all of our modernization choices far exceed the earlier attempts of previous generations. Chinese modernization should also transcend this standoff between radicals and conservatives, in order to seek out the directions that are in the basic interests of today's modernization, as well as the real obstacles. I hope that neo-conservatives will stop rushing around talking about China's problems, and take a good look instead at today's changed world. Today's modernization order ought to be a social structure that combines the realization of human material interests, the free development of human character, and the operating forces of a healthy society. This is certainly not a goal that can be achieved by our traditional cultural functions based on a small-scale peasant economy, but rather a contemporary matter, the realization of which will require constantly looking back at our traditional agricultural culture. We must face up to today's world. The real problems with neo-conservatives are their closed and narrow ways of thinking. They are forever stamped with feudalism and an agricultural economy, to which they invariably give a warm welcome.

I then asked how we could explain those intellectuals who have "been abroad," many of whom understand today's world and its changes, but some of whom are still bogged down in neo-conservatism.

Mr. Huang replied as follows: This is certainly not strange, as quite a few of those who went abroad around the time of the May Fourth Movement of 1919, such as Liang Ch'i-ch'ao who toured Europe, still bragged about traditional Chinese superiorities. This involves the matter of one's cultural stand in dealing with the issue. In viewing the West from our traditional viewpoint, it is not hard to discover many Western defects, which is due in most cases to the lack of a thorough understanding of modernization, considering Western-style modernization as the ideal. When seeing the many defects that exist in the Western modernization order, many see that it is different from their original ideals about modernization, considering that its defects are a natural outcome of modernization, most of which is the result of simplistic thinking.

#### **"Conservatism": A Response to Perplexing Times**

Success always has certain drawbacks. While modernization will certainly produce certain defects, such defects are a prerequisite for growth, so that refusing to grow for fear of its defects results in stagnation with no progress at all. In fact, as all major human developments were the result of daring to face up to existing human defects, instead of a negative avoidance of them, the desire to return to past days of glory when confronted with drawbacks is certainly not the spirit that drives human progress. Neo-conservatives embody this sentiment precisely, which is one reason why it is so hard for them to fool the public.

I then asked the following question: Why has neo-conservatism appeared and become an "ideological trend" at this particular political time and place?

Mr. Huang responded as follows: This is certainly an exceptional matter. Forsaking the political opportunity to begin with solving our material problems has slowed our pace of reform and opening. Projecting the rigorous test of reform and opening setbacks onto our social and political lives often creates an ideological mindset, instead of simply a policy expression. The prevalent display in recent years of pictures of Mao Zedong and the popular broadcasts of Cultural Revolution songs lauding him are in fact certainly not in the spirit of the worship of Mao Zedong as a saint during the Cultural Revolution, but rather carry a certain flavor of "black humor." That once lofty and sacred things have now become matters of amusement and jest shows a great spiritual vacuum. Such a sense of just playing a game invariably grows out of a lack of spiritual direction. A spiritual rehabilitation to deal with this is certainly a severely difficult problem. Quite unfortunately, discussions of modernization are invariably intertwined with Western civilization, because modernization was after all a refinement of the industrial civilization model, making it very hard for it to become the basis of a spiritual rehabilitation. In addition, while our traditions are a possible option, an outright return to the old ways in particular is perceived to be absolutely unacceptable. Neo-conservatism is precisely trapped in this double-bind. And it is precisely its over-oddness that keeps it from having any practical use.

I noted the need here to consider the following two questions: 1) Once we have broken out of the simple standoff between radicalism and conservatism, how and what choices can we make within a broader framework? 2) What will be the basic features of a future spiritual rehabilitation framework or orientation?

#### Adapting to "Materialism"

Huang Wansheng made the following reply: I believe that the overall makeup of the future Chinese spiritual mainstream involves two basic factors that must be considered, one of which is the question: What are the real interests of the Chinese people? After more than a century of poverty, suffering, and torment, the yearning for a happy and prosperous life has become a basic and undeniable aspiration of the people of our country, as well as the true driving force behind our reform and opening. This could produce a spiritual framework with two different possible orientations, one being demands full of materialist sentiment, very like the current mainland Chinese view of Hong Kong. But while life is pleasant there, Hong Kong certainly does not contribute to philosophy or a higher level of art, but provides instead a cultural environment in which pop songs and populist art are in the mainstream. But such a profit foundation could also produce a higher philosophical framework that would consider the true value of these benefits, which I believe to be an even greater possibility

than the first one. As this would be determined by our nationalistic features, materialist demands might produce a new ideological and spiritual framework that would be different than that in any of our traditional stages. But the prerequisite for such a production might be destruction! If we regard past sacred objects as today's playthings, this will be a bitter process.

I would not like to call this framework either radical or conservative, as its grounds will exist only in our basic demands for a modernization order. It would be very hard at present to put a specific name to our future spiritual framework, because naming it would vulgarize and turn it into a confrontational polarization in which one who did not favor conservatism would become a radical, which in fact is absolutely not the case. Does the name conservative actually refer to a condition or to a demand? It is a common thing for some radicals to be quite conservative, and vice versa. If a concept is contrary to reason, it is illegitimate. The most fatal weaknesses of neo-authoritarianism and neo-conservatism are their character ambiguity and hypocrisy, leaving them unable to deal with issues thoroughly and clearly. A rigorous analysis of the matter shows that from the perspective of over a century of ideological history, making a simple distinction between conservatism and radicalism is irrational per se. So this issue is a false one, with no way to determine its truth, making it a case of defining one's own terms, and then trying to explain the matter within these self-set limits.

#### [Box pp 64-65] What Is Neo-Authoritarianism?

The Chinese neo-authoritarianism that was prevalent in the eighties caused a temporary clamor because of its support by then CPC General Secretary Zhao Ziyang. The "neo-authoritarianism" studies expert and mainland Chinese scholar Xiao Gongqin [5618 0501 4440] explains neo-authoritarianism as follows:

The term neo-authoritarianism should be used to refer to a particular political pattern experienced by third world non-socialist countries in their early modernization process.

In undeveloped third world countries, the impact of Western industrial civilization and the rise of nationalism spelled the collapse of their former imperial or colonial rule. The developing nations established on this basis often directly copied Western-style parliamentary democracy right from the start, hoping to modernize their countries through a democratic form of government. But as these undeveloped countries lacked internal modernization factors, their newly established parliamentary democracy systems were unable to control their overall national political situations, with slow economic growth, low literacy levels, and frequent social upheavals leaving these just established democratic forms of government in a state of constant crisis. Then political and military strongmen with certain modernization-oriented ideas and actions usually emerged within these regimes, and took powerful ironfisted steps to establish and

practice top-down authoritarian government, in order to stabilize their social order. Meanwhile, these military or political strongmen took vigorous steps to attract foreign investment to develop their national industry and commerce and achieve universal education, which led to the rise of a middle class. Once these undeveloped countries underwent this change, which brought rapid growth to their domestic industry and commerce, the might of their middle class increased steadily, laying the foundation for a steady modernization transition of their whole society. So from the perspective of the course of emergence and development of neo-authoritarianism, we can define neo-authoritarianism as follows: It is a type of authoritarian government that emerged in reaction to early parliamentary democracy systems in third world countries, and which was established by military and political strongmen with modernization ideas and orientations.

Of course, certainly not all authoritarian governments can be called neo-authoritarian. Neo-authoritarianism as a political practice must have the following conditions or features:

1. Neo-authoritarian rulers must have a certain modernization orientation economically, and their set administrative and development objectives should be consistent with the world economic mainstream of marketization. As the legitimacy of its authority comes from its nationalistic and modernization orientation, neo-authoritarianism places strong emphasis on goals, such as economic development and universal education, in order to win the maximum public support.

2. As neo-authoritarian government depends on a huge and effective bureaucratic system and powerful military might to exercise its top-down rule, neo-authoritarians have a politically ironfisted style, with military and political strongmen not hesitating to use even high-pressure tactics to suppress political dissent in the interests of political stability. And neo-authoritarians have an even stronger ideological consensus toward traditional value systems, believing that they are the basic embodiment of a nationalistic spirit.

3. The final and most important condition is that modernization-oriented neo-authoritarianism must adopt an open policy toward Western capital and advanced technology and culture. The hope is that this policy will promote the development of capitalism in their countries, which will result in the gradual evolution of a middle class with considerable economic, cultural, and political clout. [end box]

**Article Urges Strengthening Party, Government**  
93CM0142A Beijing DANGXIAO LUNTAN [PARTY  
SCHOOL TRIBUNE] in Chinese No 11, 5 Nov 92  
pp 30-33

[Article by Secretary Du Shicheng (2629 0013 2052) of the Yantai City CPC Committee: "Strengthen Party

Construction in Party, Government Organs While Opening Up to Outside World"]

[Text] Party construction in leading party and government organs is something important in the entire process of party construction. Under the situation of continuously developing reform and opening up to the outside world, to attach importance to strengthening party construction in various party and government organs, make them free of corruption and highly efficient, and enhance the prestige and create a fine image of the party and government among the masses of people is of great significance in implementing the party's line, principle and policies in an overall manner and speeding up the reform, the opening up and the promotion of economic developments.

(I)

As the nation opens up more to the outside, we are faced with many new situations and tasks in carrying out party construction in various party and government organs, and our work to accomplish such mission seems to be more important and pressing than ever before.

A local party or government office is a policy decision-making and command organ. To quicken our pace in opening up, we must further raise the combat effectiveness of the party groups of the party or government office. In the course of implementing party's basic line and opening up more to the outside, the party and government organs at all levels are required to proceed from actual local conditions to study the strategy for the development of the opening up policy, work out specific policies and measures, and make policy decisions in tackling major issues in opening the country to the outside world. The speed in opening up to the outside in a certain locality is determined, to a certain extent, by the policy decisions made by the leading organs. Therefore, the party groups of the party and government organs and the large number of party cadres should continuously emancipate their minds; foster a strong sense of opening up to the outside world and the spirit of daring to blaze new trails; do a good job in creatively carrying out their work; build the party groups of party or government organs into a strong leadership core in opening up to the outside; and genuinely turn the party or government organs into a strong core of leadership to open the nation wider to the outside world. This constitutes an important guarantee to implementing well the opening-up policy.

The implementation of the opening up policy imposes a new demand on the functions of the party and government organs. We must strengthen the construction of the party organizations in various party and government organs in order to change the functions of the government organs. As the nation opens up wider to the outside, our government organs find themselves having difficulty coping with the situation in performing their functions. The major problems are huge organizations,

overstaffing, over-elaborate procedures and poor efficiency. One often needs to go through dozens of offices and nearly 100 stamps on an application to have one's project approved. Some departments are accustomed to using measures worked out under the planned economy to handle cases in the course of opening up to the outside world. They have more rigid measures than flexible ones. To a certain extent, this makes things less attractive to foreign investors and tends to slow down the procedure of opening up the outside world. To solve this problem, we, on the one hand, must reform the structure of the party and government organs, delegate the administrative authority to the lower levels and gradually devise administrative procedures which are compatible with international practice; on the other hand, we must conscientiously educate and control the large number of party cadres in various party and government organs; and help them foster the correct concept of their authority, rationally use the power in their hands, establish the idea of making partial and local interests subordinated to the overall interests, and overcome the parochial concept of attaching importance to the partial and local interests only. We must also develop a strong sense of rendering service and take the initiative to serve the open policy. In various party and government organs, the party cadres are the majority. As long as they play their exemplary role well in performing their functions in the party and government organs, they will be able to effectively help the government change its functions and create a fine environment in opening up to the outside world.

When we open to the outside world, some decadent ideas will inevitably sneak in. This demands that we continuously increase the immunity of the large number of party cadres by strengthening party construction in various party and government organs. Our party is the ruling party. Party cadres in various party and government organs, particularly the leading ones, invariably have certain power in their hands. Whatever they do or say represents, to a great extent, the image of the party and the government; and greatly affects the grass-roots units. Since the implementation of the open policy, there are indeed some party cadres who cannot withstand the tests by power and money. Unhealthy trends such as money worship and egoism have emerged, while tendencies that violate party discipline and state laws such as making use of one's authority to seek personal gains, corruption and bribe-taking have cropped up. This indicates that while we open the nation to the outside world, it is all the more important and pressing to strengthen party construction in various party and government organs and help party cadres raise their awareness in combating corruption and decadence. In the entire process of carrying out reform and opening up to the outside world, we should pay full attention to improving the party style and combating corruption in party and government organs.

Opening to the outside world imposes new demands on the qualities of party cadres. We must help the large number of party members master their skills well in

opening to the outside world by strengthening party construction in various party and government organs. For a long period of time in the past, we found ourselves in a closed environment and knew little about the situation and experiences abroad. In the course of opening to the outside world, we must import and draw on the advanced technology and methods in management and administration in foreign countries. We must help the large number of party cadres understand the world, familiarize themselves with the situation abroad, broaden their knowledge on foreign trade and economic affairs and learn how to deal with foreign businessmen. Only by doing so, will it be possible for us to take the initiative in opening to the outside world; avoid losses and blind imports in the course of opening up; and ensure the healthy development of the open policy.

## (II)

Our experience in the past few years indicates that to strengthen party construction in various party and government organs in the course of opening to the outside world, we must maintain close touch with reality and pay attention to the following tasks:

First, we must give top priority to helping party cadres raise their ideological level, extensively carry out discussions on the open policy, and continuously emancipate their minds. The process of opening to the outside world is one of continuously emancipating our minds. Each leap forward in our ideology will bring about a breakthrough in doing the work of opening to the outside world. To "emancipate one's mind" means to eliminate the influence of the "leftist" ideas; break the shackles of the outmoded concepts in a big way; and boldly open up. As seen from the situation in Yantai, we should attach importance to solving the problems of "lacking confidence, fearing difficulties, displaying complacency and exercising excessively rigid control" and guide party cadres to overcome their "fear of capitalism." We must rebuff all interference, and make the advanced measures for management and administration developed in various countries in the world, including the developed Western nations, work for us as long as they will help develop the socialist productive forces, increase the overall national strength and raise the people's living standard in China. We must boldly try such measures and blaze our trails; overcome "shortsightedness"; and combat the small-scale peasants' ideology of showing eagerness for quick successes and instant benefits and of worrying about personal gains and losses. We must proceed from the overall interests and long-term developments to open wider to the outside world. We must combat the symptom of "self-satisfaction"; deeply understand the grim situation in which people try hard to overtake each other; increase our sense of urgency and growing crisis in opening to the outside world; and adopt measures against "lack of vitality." We must neither wait for nor rely on state assistance; take the initiative to launch attacks; and vie with one another for a seat in the first wagon in opening to the outside world. Our experience in the past several years indicates that one of the

effective forms in helping party and government organs emancipate their minds is to extensively conduct debates on the open policy through which we can bring about a mass emancipation of people's minds and open the entire city wider to the outside world. In the past two years, we carried out two mass debates in the city. We carried out debates while correcting mistakes and carrying out party rectification. As a result, we painstakingly solved many actual problems, and attained tangible results in helping party cadres in various party and government organs increase their overall awareness in opening to the outside world.

Second, we must strengthen party construction in various party and government organs around the central task of changing government functions and with emphasis on serving the open policy; and strive to clear away the "obstructions at the middle level." An outstanding problem in opening to the outside world is the incompatibility of the functions of various government departments with the requirements of the open policy. Government departments at the higher and lower levels are eager to implement the open policy, while those at the middle level fail to act in unison, thus impeding the operation in opening to the outside world. In doing the work of strengthening party construction in various party and government organs, we must solve the problem of carrying out party construction merely for the sake of party construction or doing such work with a vague purpose. We must regard the change of government functions as our major task. First of all, we must solve the problem of emphasizing administration work while ignoring services. The function of the government departments is not administration alone. More important is the fact that they need to serve the grass-roots level. Our practice for many years indicates that if we over-emphasize administrative work alone, we often tighten our control too much, and everything becomes rigid. Only when we carry out our work flexibly can we open wider to the outside world. Next, we must solve the problem of stubbornly adhering to book worship and of not daring to blaze new trails. Some of the policies, regulations and administrative measures worked out in the past under the old system have already hampered the development of the open policy. To carry out reform and open up to the outside, we must dare to blaze new paths, try new things and boldly break the trammels of outmoded ideas. We must not mechanically implement the regulations worked out in the past, saying: this cannot be done; that should not be done. We must search out those policies that worked out in the past, including those formulated during the period of improvement and rectification, that fail to keep up with the new situation and hinder the implementation of the reform and open policy. We must try to remove such hindrances and in a timely manner readjust such policies we formulated. Meanwhile, in the course practice, we must explore, study and work out new policies which were non-existent in the past. In addition, we must solve the problem of over-emphasizing local interests and failing to view the situation as a whole. In the process of opening to the

outside world, we often find that all our previous efforts are wasted on some projects, simply because a problem cropped up at a certain point. This requires that in doing their work, party and government organs must proceed from the overall interests and increase their sense for close coordination. Departments in charge of economic affairs, those departments that exercise macro-control and all service departments must coordinate with one another to remove barriers, give the green light to party construction and sing their chorus well. In carrying out the work of party construction in various party and government organs, including the work of educating party members, training cadres and helping them straighten out their ideas and improve their work style, we must do a good job in solving the aforementioned problems, and genuinely help such organs play a harmonious "concerto" in opening the country to the outside world.

Third, we must vigorously develop the party style, combat corruption and resolutely eliminate signs of decadence. The further development of the open policy imposes new and even higher demands on improving party style and combating corruption in party and government organs. When windows and doors are open, "hot air and cold drafts" come in at all times. This calls for efforts to continuously increase our own immunity. To improve party style and combat corruption in party and government organs, we must, on the one hand, persistently pay attention to educating party members on party style, party spirit and party discipline; and help them basically improve their political qualities, keep in mind the purpose of wholeheartedly serving the people, take honesty in performing official duties as an honor, regard corruption as a shame, combat corrosive influences and forever resist temptations in face of power and money. On the other hand, we must strengthen inner-party supervision, and resolutely manage party affairs in all seriousness. It is necessary to set up a system to rectify the party style and combat corruption in party and government organs. The key to establishing and improving the necessary rules and regulations is to set up a good system of "making work procedures and decisions known to the public and accepting supervision by the masses" in party and government organs so that this system has mechanisms of supervision, restraint and rewards and penalties. We must seriously investigate and handle important cases and major crimes involving moral degeneration and evildoings such as the use of authority to seek private gain, extortion, graft and embezzlement, bribery, trading power for money, exchanging favors, swapping favors for material gains. Party committees and party discipline commissions at all levels must resolutely shoulder their responsibilities, dare to act according to principles, and build the party to serve the interests of the people. Regardless of the person or the organization, we should seriously investigate and handle any case that violates party discipline or state laws. We should never shift responsibility to others. Still less should we cover up evildoings or bend the law for the benefits of relatives or friends.

## (III)

The work of party construction in party and government organs has its own peculiarity. To strengthen party construction in party and government organs in the course of opening to the outside world, we must pay attention to handling well the following relations in accordance with such peculiarity:

(1) The relation between the party's central task and the work of party construction in party and government organs. The party's basic line constitutes the basic guidance in strengthening party construction in party and government organs in the new period. This requires that we must carry out party construction in these organs with emphasis on the "central task of economic development and the two basic points" [namely, adherence to the four cardinal principles and implementation of reform and the open policy]. This means that we must not only do everything with the central task of economic development in mind, but also insure the implementation of the "two basic points." This is because: First, to regard economic development as our central task and strive to achieve this goal meets the objective needs of and provides the fundamental guarantee to consolidating and developing the socialist system. The fundamental task of the socialist society is to develop the productive forces. We rely on the gradual development of our modernization program for enjoying a long period of order and stability in the country, strengthening unity in the party, enhancing our appeal and consolidating and developing the socialist system. Therefore, under socialist conditions, the party must firmly grasp its central task of economic development, make sure that this task is given top priority and energetically develop the economy. Second, we must understand and pay attention to the overall strategic principle with our focus on economic construction. It is difficult to fulfill the central task of economic construction without the close coordination of other fields of endeavor. Without this central task, work in the other fields is meaningless. Therefore, we must promote spiritual civilization and party construction in order to fulfill the central task of economic development. We must persistently adhere to the strategic principle of "grasping with both hands." Third, economic development is the party's central task, while the need to strengthen party construction in party and government organs and persistently follow the party's leadership is the key to the healthy development of our economy along the socialist path. Without the party's leadership and strong party organizations to guarantee our economic development, socialist modernization will be an empty talk. Therefore, while promoting economic development, we must do a good job in strengthening party construction in party and government organs and combating the trend of the party refusing to handle party affairs and of ignoring party construction in party and government organs.

(2) The relation between party members' group and administrative leadership in party and government organs. Party and government organs at all levels are

leading organs and responsible departments, while a party organization in a party or government office is not responsible for doing any specific job in leading one's own department or unit. Under this situation, it needs the close coordination of the party and government leadership to carry out party construction and develop party activities. Party organizations at all levels in party and government organs must regularly study their work concerning party construction, develop various types of organizational activities according to party regulations, and timely solve existing problems in carrying out party construction. They must systematize and standardize the work concerning party construction, and resolutely solve the problems in carrying out party construction in party and government organs such as the problem of "working in the dark" and that of the party failing to handle party affairs. All administrative leaders who are party members must attach importance to and support the work for party construction, vie with one another to set up examples in leading a good democratic life in the party, and energetically create favorable conditions for the promotion of party construction in party and government organs. Particularly for the administrative departments, the busier they are, the harder they should work to strengthen party construction and ideological-political work in party and government organs. Only by doing so, will it be possible for us to concentrate on what is of basic importance in a complicated situation, follow the correct orientation in a rapidly changing environment, find the right measure and way under difficult conditions, and do a good job in integrating the party's line, principle and policies with the actual work in one's own department.

(3) The relation between party members' self-control and the need for restraint by the system. Party cadres in party and government organs have fairly fine qualities. They are relatively capable of educating and controlling themselves. However, they must also be restrained by standard systems. In addition to the system of democratic centralism and other systems such as the system of "three meetings and one class," we should also establish the following four systems: 1) The party members' target control system. Party members and party organizations must sign a letter of responsibilities to determine their targets for each year. They must specifically define their responsibilities, obligations and privileges and evaluate themselves through democratic appraisal and discussion. 2) The official achievement evaluation system. The major leading cadres of various departments must sign a letter of responsibilities with the city committee or city government to permit the organizational and personnel branches to conduct unified evaluations and appraisals of the achievements against the goals they set after soliciting the views of the higher authorities in charge of this affair. 3) The system of personal responsibilities for cadres in party and government organs. On the basis of duties incumbent on each person or post, various departments must strictly define different work standards for different posts and evaluate each cadre at any time. They must also link each cadre's work achievements with his

or her wage and bonus, and reward those with remarkable achievements while punishing those with poor work performances. 4) The system of promotion for any party organization in an office that fulfills its targets. We must establish the criterion for conducting evaluations with emphasis on strengthening party construction in party and government organs, on changing the work style and on improving services. We must introduce a mechanism to encourage competition, and divide the party organizations in various organs into different categories so as to speed up party construction in various units.

(4) The relation between self-development and the need to strengthen supervision. The high tide of opening to the outside world has battered outmoded concepts and ideas, and instilled new life and vitality into party organizations. Following the emancipation of people's minds and the flexible implementation of policies, the work in carrying out party construction in party and government organs has become more complicated and arduous. This demands that we do an even better job in following the principle that the party should handle its own affairs and that the party should manage its affairs in all seriousness. We must draw up even higher standards and requirements for strengthening party organizations ideologically and organizationally, improving their work style, and increasing their militancy and immunity. Meanwhile, to further improve the mechanism for political supervision, to insure the overall implementation of the party line, principle and policies, and to avoid mistakes in making major policy decisions have become the major topics which we urgently need to grapple with at present in carrying out the work of party construction. The current system of political supervision in China includes inner-party discipline supervision, legal supervision by the people's congress, administrative supervision by state organs, disciplinary supervision by control departments, judicial supervision by procuratorial organs, democratic supervision by the CPPCC and various democratic parties, media supervision by news agencies, and social supervision by mass organizations and the masses of people. From an overall point of view, this system has already begun to take shape and play an extremely significant role in promoting democratic politics of socialism, and insuring the smooth development of socialist modernization. Party cadres in party and government organs, especially those at various leading posts, must consciously accept supervision of all forms. This constitutes an important manifestation of the system of democratic centralism which is a fundamental system of the state and the government. It is also the basic political principle which we must firmly follow in strengthening party construction in party and government organs and in consolidating the socialist political system, as well as an important measure to overcome bureaucracy, combat corruption and bring about a fundamental change for the better in improving the party style. So long as we, on the one hand, seize the opportunity to develop all party organizations in party and government organs, while on the other hand we do a

good job in accepting supervision from inside and outside the party, make such practice a regular system and exert unremitting efforts over a long period of time, the party organizations at all levels in various party and government organs will definitely become much stronger under the new situation in carrying out the reform and opening policy; and do a still better job in playing their role as political core, fighting bastion, and exemplary leader.

#### **Examples of Improved Industrial Sector Party Work**

93CM0121A Beijing ZHIBU SHENGHUO [PARTY BRANCH LIFE] in Chinese No 12, 12 Dec 92 pp 28-30

[Article: "How To Improve and Strengthen Basic-Level Party Work"]

[Text] *At the second session of the national discussion meeting on party-building work in the industrial sector of some key cities, which was held in September 1992, comrades from the industrial sectors of 16 cities, centering on accelerating the pace of reform and transforming enterprise management mechanisms, widely discussed and exchanged ideas on how to strengthen and improve party work and how to better bring it into line with and serve economic construction. The contributions below were excerpted and edited from speeches at the meeting—Editor*

#### **Focus on Research To Solve Six Problems; by All Ways and Means Go to the Main Battlefield**

Facing the new situation, enterprise party building work really is in the key stage of adjustment and development. With regard to the situation that has appeared and the problems that confront enterprise party-building work, they cannot be understood as a simple repetition of or regression to the "watering down" situation in the previous stage. The new situation, at both deeper and higher levels, imposes new demands on enterprise party-building work. Party organizations at all levels, as the organizations on the first line of reform and opening up to the outside world and of economic construction, should accurately understand the situation, step up work dynamics, vigorously think of the major issues in party building, and by all ways and means go to the main battlefield of economic work. Specifically, research should focus on solving six problems:

1. In the guiding ideology, they must change their traditional ways of thinking; extricate themselves from the closed-type single cycle in which the party only controls the party and builds the party; and gradually form a work pattern for omnidirectional major political work that is familiar with, participates in, and integrates with economic work. They must change the state of affairs in which they just circle around economic work and do not penetrate it, must dig into their own jobs, must truly stand on a high plane, must think on a deep plane, must do solid work, and must from a higher level

enhance their leadership and get a grip on their direction. Besides taking part in the factory management committee, production management meeting, and economic activity analysis meeting, the principal leaders of the party committee can directly manage concurrently one or several parts of the economic work. Some political work departments can share responsibility for some of the economic results indices. The composition of the enterprise party committee's leading group must be one for which, in accord with the deployment required by the policy-making leading group, a number of experts who understand production and who can manage are recruited.

2. Appropriate adjustments must be made in the work content. Besides initiating within the party education on the party's spirit, style, and discipline, and insisting on systematic education, there should be, proceeding from reality, good education on common ideals, education on reform and opening up to the outside world, education on the commodity economy, and education on the enterprise's development strategy and on its policies and goals.

3. In the work methods, they must pay attention to the unity of form and content and overcome formalism. Now, speaking of the enterprise, in the form and content of ideological and political education they must stress distribution, pay attention to the extent of coverage of content made by various forms of education, and prevent leaks and dead angles. At the same time, they must pay attention to the focused nature of the educational content and the operability of the educational activity, and they should especially be good at using typical cases and separate levels in educating the staff and workers.

4. In cadre training, they must enhance training measures, open wide training channels, increase training content, change the political cadres' single-type knowledge structure, improve overall quality, and train a large number of integrated talented persons to span the centuries.

5. For the appraisal mechanisms, they must explore new ways and new methods, and bring about a situation that conforms to reality; that is scientifically accurate; that integrates quality with quantity; that has strong comparability, strong operability, and strong effectiveness for a given period of time. In general they should give prominence to four points: the system for economic results goals; the overall quality of cadres, party members, and staff and worker ranks; the building of leading groups at the three levels; and the building of the enterprise environment.

6. In leadership mode, they must, proceeding from the needs of reform, transfer to lower levels the right to manage party-building work, and change command plans to guidance plans; in cadre work uphold the principle of managing well, managing in a solid manner,

and managing in a flexible manner; and in the enterprise's daily party-building work exercise flexible control, with less intervention and more service, less action and more investigation and study, and less inspection and more guidance on the basic ways of thinking, as much as possible bringing about a situation in which if something cannot be controlled then it is firmly not controlled, and if something can be controlled less then it is absolutely not controlled more, thereby giving the enterprises more right to act on their own initiative.

[signed] Industry and Communications Department,  
Changchun City CPC Committee

### Change "Small Participation" to "Big Participation"

In its work an enterprise party committee must jump out of its self-enclosed circle; must take the initiative to participate in economic work and become deeply involved in studying economic work; and solve well the problem of "being unwilling to participate, not daring to participate, and not participating." Stressing the policy decision that the enterprise party committee must vigorously participate in reform and in solving the enterprise's major problems, and while displaying in the participation its guidance and service roles, the Beijing Municipality industrial system has effected a change from "small participation" to "big participation," i.e., a small number of party members participate in decision making and play the party's role in leading the great number of party members to take part in decision making and development, thereby opening wide the channel for the party committee's participation. For example, in reforming the labor, personnel, and distribution systems, a papermaking and packaging company conducted among its cadres and its staff and workers a "thousand-person questionnaire and a hundred-person discussion" movement to discover the "difficult points" and "hot points" in the ideology of its staff and workers on the question of reform, and through the staff and worker congress and many forms of education, caused the great number of staff and workers to understand, support, and join in reform. While making plans for reform, the Beijing Chemical Industry Group imposed demands on party members and cadres with regard to the "five barriers," i.e., party spirit barrier, competition barrier, engagement barrier, utilization barrier, and discipline barrier, and demanded that the party members "take the lead in surmounting these barriers," so that the party members concern themselves with reform, participate in reform, and play a vigorous, exemplary role in reform.

[signed] Industrial Work Committee of the Beijing Municipal CPC Committee

### Leaving the "Region of Error" and Erecting a "Big Stage"

In Shijiazhuang City's industrial, construction, and communications system, there are now more than 380 enterprise units, more than 360,000 staff and workers, and

more than 66,000 party members. Last year the Industrial Commission surveyed a little over 30 units. It discovered that in many of these units the phenomenon of "two layers of skin" still exists, and that some enterprise party organizations, putting self at the center, dissociated themselves from economic construction. Some administrative leaders called this unsuitability a case of "ineffective labor rate producing effective labor." The Industrial Commission concluded, to switch on the energy of party organizations, the first thing to do was to break through the traditional fixed ways of thinking and the shackles of the "left" ideology. For this reason, in the entire system it took great pains to grasp ideological transformation and track-switching in work. After Comrade Xiaoping's speech on his southern tour, the Industrial Commission further concluded: the "three advantages" not only are the criteria for judging the success or failure of reform and the results of economic construction, but also are an important basis for judging the results of party-building work.

Through the practice of unifying understanding and switching tracks in work, the leaders of all enterprises and the great number of party committee cadres gradually extricated themselves ideologically from four "regions of error" and established four new concepts: extricating themselves from the "region of error" in which the party committee does not have administrative and management rights and thus does not have a position, and establishing the concept of making accomplishments and thereby getting a position; extricating themselves from the "region of error" in which the streamlining of political work organizations entailed the weakening of party building, and establishing the concept of changing the functions of party affairs organizations; extricating themselves from the "region of error" in which the participation in economic work by staff and workers and by cadres was a case of "planting other people's fields," and establishing the concept of following and serving economic work; and extricating themselves from the "region of error" in which "taking economic measures meant not wanting to do ideological and political work," and establishing the concept that an enterprises needs more and more powerful ideological work.

Following the replacement of concepts, many enterprise party committees, with the improvement of work as the main line and with the raising of the consciousness of service as the content, adjusted their party-building plans and their work goals, and paid attention in the guiding ideology to solving the problem of the "left," in work to solving the problem of "empty," and in work style to solving the problem of "floating." The enterprise party organizations widely initiated the activity of "Communist Party members vie to be pacesetters"; and tried to open wide the channels for participation in economic work and to erect a "big stage" of party work serving economic construction.

[signed] Industrial, Construction, and Communications Work Commission of the Shijiazhuang City CPC Committee

#### **Enterprise Party Committees Cannot Be "Zhu Geliangs After the Event"**

The Shenzhen City Petroleum and Chemical Industry (Group) Ltd. was originally a state-run enterprise subordinate to the city. In August 1990 it was reformed into a group company, and last year it made the change to the stock system, becoming a public stock company with shares on the market. Now, in the three classes—self-run, Sino-foreign joint venture, and internal combine—of the 33 enterprises subordinate to it, there are more than 3,600 staff and workers and 326 party members.

In the past, because this enterprise ignored party building, watered down ideological and political, and exercised slack control, there were errors in decision making and in economic loss of control. More than 100 million yuan were lost in asset erosion and operating expenses, putting a heavy burden of debt on the enterprise. In August 1990, after the company was reconstituted as a group and it set up a new leading group, we initiated rectification. We investigated the past situation, dissected typical cases, and analyzed causes. We discovered that these problems were, directly or indirectly, connected to management decisions on investment, and that the key to them was precisely the loss of the party organization's ensured supervision. Painful lessons have taught us: the enterprise party organizations must play their role as the political core. To ensure the correct direction of the enterprise's development and promote the growth of productive forces, they must take the initiative to participate in the discussion of, and the decision making on, the enterprise's major issues, changing supervision after the event to participation before the event, and not be Zhuge Liangs after the event [Monday morning quarterbacks].

At present our group company's party committee is vigorously participating, before the event, in the enterprise's long-range development and in major investments and major management activities. The group company's party committee, board of directors, and management group, before making decisions on major issues, first classifies the issues in line with their nature. Then the relevant departments of the board of directors, management group, and party committee separately conduct special-topic investigation and study. Afterward, separately, with the party committee's enlarged meeting or the board of directors' enlarged meeting, full discussions are held; and, in line with the principle of democratic centralism, correct opinions are concentrated and a resolution reached. In the past two years, the group has made 20 fairly major decisions, all without a single error and all with good results.

[signed] Chuang Xiaodui [0278 6906 1417], deputy general manager and member of the party committee of the Shenzhen Petroleum and Chemical Industry (Group) Ltd.

### **A New Era Image of Party Members Must Be Established**

In an enterprise, for the party organizations to play their role as the political core, what is very important is whether they embody the fighting capacity of the ranks or party members. Since last year Tianjin Municipality's industrial system, on the basis of making sound and perfecting party branch management by objectives, the party group's responsibility area, the party members' exemplary work post, and other work, has put its emphasis on getting a grip on the vanguard exemplary role of party members in reform and economic construction. The Industrial Work Commission of the Tianjin Municipal CPC Committee has put forward five propositions concerning the party member image in the new era: First, in transforming management mechanisms, the party members are to take the lead in changing concepts, and play their role on the main battlefield in opening up markets and managing production well. Second, in deepening the internal reform in enterprises, the party members are to take the lead in throwing themselves into reform, raising competition to the higher plane of principle, taking risks, and making more contributions. In the face of reform they are to stress style, and in face of risks they are to stress boundaries, setting examples for the masses. Third, faced with tasks of great peril, through activities to be the first in achievements and vying for excellence "people will take up the quotas, each one shouldering a heavy burden" and "a party member will be a star and a party branch a banner." Fourth, in promoting the enterprise's scientific and technological progress, the party members are to take the lead in going all out and forging ahead to overcome difficulties, and in the course of scientific and technological progress they are to "shoulder large burdens," take risks, and scale heights. Fifth, in invigorating the enterprise, party members are to set an example and be honest in performing their official duties. In particular, the leading cadres must, "with honest government as expressing the will of the people, with diligent government as warming people's hearts, and with solid work as bringing together the will of the people," win the trust of the masses.

[signed] Industrial Work Commission of the Tianjin Municipal CPC Committee

### **"Thousands, Hundreds, Tens" Emulation Gives Party Work a "Carrier"**

At the beginning of last year, the Industrial Work Commission of the Wuhan City CPC Committee, on the city's industrial front, for nearly 100,000 Communist Party members, more than 5,000 party branches, and more than 300 enterprise party committees, began a "thousands, hundreds, tens" emulation competition. This activity closely centers on the enterprises' production management, and, with quality improvement as the topic, infuses competitive mechanisms into the party; in line with quantitative two-fold criteria, it creates a thousand outstanding party members, a hundred

advanced party branches, and ten advanced party committees. With regard to the form this activity takes, under the guidance of the party's basic line it centers on the main contradictions and key problems in the work content and production management of enterprises in different periods of time. It is an inner-party activity that, through initiating inner-party competition, fully displays the party's political superiority, and to the greatest extent arouses the enthusiasm, initiative, and creativity of enterprise staff and workers. It is closely connected to giving undivided attention to getting a good grip on party building and, with single-minded devotion, to doing economic construction well.

The party's "thousands, hundreds, tens" emulation competitive activity demands that the party organizations and the party members take the lead in solving ideological problems and changing concepts; take the lead in experimenting in reform and opening up to the outside world, and, in emancipating and developing the productive forces, and promoting them, in the spring tide of the new economic stage, to stand on precedent. Party members must have the "six seeks" spirit: in work seek the facts, in production seek the superior, in technology seek the new, in quality seek the excellent, in results seek the good, and in contributions seek the many. The party branches must form the "three forces": cohesive force, inspirational force, and fighting force. The members of the party committees must establish "five images": contributing, men of action, honest, just, and upright images. This makes specific the three roles that the party organizations and the party members must play.

With the influence and encouragement of the inner-party emulation competition, there has appeared a situation on the city's industrial front in which 100,000 party members have become pioneers and 1 million staff and workers have scaled the heights. During the practice of deepening the internal reform in enterprises, many enterprise party organizations put the point of their main attack in the "thousands, hundreds, tens" activity on the difficult and key points in deepening reform, thereby ensuring the timely placement and smooth implementation of all reform measures. The "thousands, hundreds, tens" emulation competitive activity in the party makes the resolution of the main contradictions in the development of productive forces the starting point, effort-putting point, and staying point of party-building work, thereby invigorating the life of enterprise party organizations, so that the work of the enterprise party has a new "carrier."

[signed] Industrial Work Commission of the Wuhan City CPC Committee

### **WEN HUI BAO Essay on Spiritual Civilization**

*OW1802152593 Shanghai WEN HUI BAO in Chinese  
5 Feb 93 p 6*

[Article by Wei Qun (7279 5028): "Build a Socialist Spiritual Civilization Suited to the Market Economy"]

[Text]—There will be distinct changes in the environment surrounding the building of the spiritual civilization following the transformation of the economic system. The main characteristics are the change from a closed nature to an open nature, from a dependent style to an independent style, from unfair competition to fair competition, and from static management to dynamic management.

—The framework for building the socialist spiritual civilization is a social system-engineering project that is guided by the theory of building socialism with Chinese characteristics; supported by economic invigoration and the rapid development of productive forces; aimed at training and bringing up a new generation of well-educated and self-disciplined people whose lofty ideals and moral integrity reflect the features of our age; oriented to shaping a civilized social environment of tranquility, stability, and unity; and safeguarded by the law.

—The spiritual civilization must be well-suited to serving the center of economic construction. It is necessary to emphatically study how to center on people—the most positive and dynamic productive force and the best meeting point between the spiritual civilization and the material civilization—to carry out our work under the conditions of a market economy. We should help people emancipate the mind, upgrade ideological morality and scientific knowledge, and strengthen the ability to take part in market competition. [end of summary]

## I.

At this juncture, it is necessary to lift the building of the socialist spiritual civilization to a new level as required by the guidelines of the party's 14th National Congress. The key is to study and get hold of changes that have taken or will take place in the environment surrounding the building of the spiritual civilization, as well as the possible effects of these changes on people's thinking, behaviors, mental attitude, and interpersonal relationships. Based on what the writer saw, no other current changes in the environment surrounding the building of the spiritual civilization is more profound than the reality that our nation's economic model is going to change from a planned economic system to a market economic system. The transformation of the existing economic system into a market economic system is a fundamental change of economic systems. Therefore, the environment surrounding the building of the spiritual civilization also will inevitably undergo distinct changes. Such changes might be summarized as generally having four distinctive characteristics.

**1. Changing from a closed to an open nature.** Under the traditional planned economy, the entire social organizational structure appears as a model of downward, vertical, direct management. Enterprises are answerable to the government, with factory managers watching their mayors closely. An area, a city, or a unit each has its own

complete setup, regardless of their size. As a result, the environment is closed and information channels are blocked, so much so that each industry is completely cut off from the others. In such an environment, people are relatively simple-minded, sincere, honest, obedient, disciplined, and devoted to their duty. An inland factory manager gave quite a representative description of his workers—"they never make noise, never demand something that is not given to them, never care to see the management if they are not asked to." A market economy is completely open, however, with commodities and various productive factors flowing freely between enterprises to bring about an optimized combination and instinctively seeking to smash all kinds of fences created under the conditions of the existing economic system, and breaking down regional barriers between administrative divisions, to form a unified national market and link up with the world market as a whole. Under this situation, the entire social organization would take on a distinctive characteristic of horizontal links. Surrounded by this open environment, people will have quick access to information and frequent communications. As a result, they will become active thinkers, and also will become experienced, knowledgeable, and confident in making their own judgements—and they also will become more selective concerning information. People will no longer be content with the communication method of disseminating only monotone information from the top, or satisfied with the "authoritarian" education method, and will begin to gradually form a mode of thinking by which they select the information they need from among "different voices." This will pose new demands on the old method of ideological education.

**2. Changing from a dependent style to an independent style.** Enterprises are an appendage of the government and are held tightly under the arms of the "grandma" under the planned economic system. They cannot operate independently or pursue their own development path. As the government directly controls their human, financial, and material resources, the enterprises become an appendage to the government. In line with this system, staff members and workers also depend entirely upon the enterprise. Their rights with regard to personnel, remuneration, and welfare matters always hinge on the words of individual leaders of an enterprise. Therefore, personal dependency is rather strong in such an environment. People handle the relationship with their immediate superior with great care, for fear that any damage to the relationship would hurt themselves. On the contrary, in the environment of a socialist market economy, enterprises free themselves from direct government control and enter the ocean of commodity competition, "floating independently up and down." If enterprises want to prevent themselves from being drowned in the ocean of a socialist market economy, they must control their own destinies. This independence is bound to demand that workers have a self-dependent personality, self-esteem, and the ability to improve and correct themselves. It demands that the

workers emphasize self-fulfillment in their way of thinking and be ashamed of making themselves a complete and permanent appendage of a certain group or individual. In relations with superiors, workers must attach more and more importance to establishing independence and self-respect, and they should judge and express their opinions about their leaders' decisions and behavior. The more educated the workers are, the more views and "complaints" they will have. Many people, especially young people, are no longer afraid of offending their superiors. They have become more convinced that ability and skill will enable them to control their own destiny. While bosses can fire workers, workers can also "get rid of" their bosses.

**3. The change from unfair to fair competition.** Under the traditional economic structure, commodity prices were distorted. There was no clear distinction between government and enterprise responsibilities and no fair competition among enterprises. During the initial stage of reform, a policy favorable to nonpublic sectors was adopted to revitalize the economy. This created a phenomenon in which state-owned large and medium-sized enterprises could not match village and township enterprises, Chinese-foreign joint ventures, cooperative enterprises, and exclusively foreign-owned enterprises. Under the old economic structure, unfair competition was manifested not only between enterprises but also within the enterprise itself. Income distribution did not reflect the principle of to each according to his work; those who work more did not get more. As a result, many workers were fooling around at work, and indolence and undisciplined behavior became the prevailing practice. Since our transition to a market economy, a unified market has been established, and commodity prices have been rationalized, enabling various economic entities to earnestly compete with one another in a fair and open environment. Competition means pressure and risk-taking. Economic returns directly affect an enterprise's ability to rally its people. Enterprise management, therefore, must pay attention to keeping people of talent, kindling their interest in their current work, and cultivating a sense of belonging and security in their minds. This is another new topic worth studying in building spiritual civilization under a new environment of fair competition.

**4. The change from passive management to active management.** Under the conditions of a planned economic structure, the government directly controls microeconomic activities. Government controls such things as capital, the labor force, technology, and natural resources; enterprises have no control over them. Under such a structure, enterprises are nothing more than bricks. They do not have energy or vitality, and their management is in a state of inaction. Workers are appointed to a post where they will work for a dozen years or even for several decades with the same pay. As time goes by, workers' initiative and creativity disappears, and they become lazy and cannot bother to improve themselves. Since our transition to the market

economy, the whole society appears to be moving. Capital, material, information, human resources, and commodities are in constant flow, emitting vitality and energy. Based on their own strengths, enterprises take over others or are taken over by others. In market competition, there is no shelter for the weak and only the strong can prevail. Under the new economic structure, enterprises become living cells. Inside the enterprise, "cadres can move up or down, workers can be hired and dismissed, and their pay can be increased or reduced." At the same time, the multiplication of different interests will inevitably bring about friction, ideological conflict, and hostility. In the face of these problems, managerial personnel at different levels should try to find ways of eliminating contradictions, ameliorate conflicts, ease people's minds, and tap potential in their practical work. In addition, in the course of developing the market economy, some people will leave their place and unit for other places and units in large numbers. Many of them do not have a registered residence, supervising unit, or superior organ. Moreover, self-employed individuals and owners of private businesses are no longer under the jurisdiction of closely knit traditional organizations. For society to develop in a stable, orderly way, it is necessary to more effectively supervise and educate the above mentioned members of society.

## II.

The new situation and characteristics appearing during our transition to a market economy call for new ideas and methods to build socialist spiritual civilization, and these ideas and methods may be summarized as "one framework, four systems, and three principles."

I believe that the framework for building a spiritual civilization suitable to a socialist market economy is a framework of social engineering incorporating the following elements: The theory of building socialism with Chinese characteristics, which will be the guide; rapid development of productive forces and economic revitalization, which will serve as material support; the training and development of a new generation of well-educated and self-disciplined people with lofty ideals and moral integrity, which will be the goal; the creation of a civilized and harmonious social environment characterized by stability and unity, which will be the direction; and the law, which will be the safeguard. In this general framework, "four major systems" should be constructed.

**1. A system for moral construction.** Morality serves as the basic norm regulating interpersonal relationships. Establishing a moral and value outlook compatible with socialist market economy is a matter of first importance in establishing new ideas for building spiritual civilization. Conflicts and struggles between old and new moral concepts in people's minds are most prominent during the transition to a market economy. The most important thing facing us now is to identify and resolutely eliminate those old moral concepts and traditions, outmoded conventions, and bad customs and to recognize and vigorously promote those new moral concepts, fine traditions,

and new habits. I believe that building a morality compatible with a market economy consists of two processes. The first is the establishment of a moral outlook essential to a market economy, an outlook that values, for example, talent, education, time, efficiency, profit, and beauty. The heart of this moral outlook is protecting and encouraging competition. This calls on us to vigorously promote and protect people who possess a strong character and pioneering spirit, dare to take risks ahead of others, work diligently in a down-to-earth manner, keep their word, stress quality, respect science, act in an unconventional or unorthodox way, and are good at seizing opportunities. Conversely, we must reject and oppose those who lack the pioneering spirit and lofty ideals, stick to conventions, stand still and refuse to make progress, lack a strong character, submit themselves to power and pressure, act sluggishly, break promises, drop their benefactors as soon as help is not required, and cheat. The second process is to establish a moral outlook compatible with socialism. We must spare no effort in launching different forms of education in patriotism, collectivism, and serving the people. We must promote the ethics of "all for one and one for all." We must use high-standard cultural and artistic activities to elevate people's realm of thoughts, and we must use high-standard spiritual education to mold people's sentiments. We must conduct socialist moral education in a more natural, scientific, and artistic way and make it readily acceptable to people. In establishing a moral outlook that meets the general needs of a market economy, we should emancipate our minds, break away from "leftist tendencies," and remove the outmoded. In establishing a socialist moral outlook, we should carry forward our fine national traditions, review and uphold the successful experience in moral construction we have accumulated in the last several decades, use the new socialist moral outlook to overcome and rectify the negative phenomena of putting profit-making above everything else and of each trying to cheat or outwit the other. Only when we pay attention to these two aspects can we gradually establish a new morality system compatible with a socialist market economy.

**2. The organizational system.** We need a healthy organizational system to guarantee accomplishment of the mission of building spiritual civilization. First, judging from the experiences gained by enterprises in Shanghai in their current experiments for deepened reform, it is impossible to establish an organizational system for building spiritual civilization on a unified format or down-the-line basis, and we should take the actual conditions of enterprises into consideration in formulating such a system. The design and selection of an organizational system's format and category lie in the effectiveness of actual work. Shops in a three-story marketplace under a certain commercial unit in Shanghai have three different leadership systems: The first floor is the "joint responsibility of the party and the government," the second floor is a "mutual moonlighting operation between the party and the government," and the third floor is a "separation of the party and the government."

Handled by different people under different local conditions, these three leadership systems each has its own merits and have been functioning well. Any subjective "correction" or "wanton selection" will surely lead to chaos. Second, although there is emphasis on separating the party and the government, it should not be overemphasized in enterprises. This is because enterprises are production units and economic organizations with production and operations as their central tasks, which should be respected in establishing an organizational system. With this in mind, it may be said that the absolute dividing line between political and administrative work should be removed to give way to the establishment of a political work organization with "all-in-one multifunctions." For example, we may create a new situation in political work organization by grouping and integrating all such work as propaganda, education, enterprise culture, publicizing enterprises' images, training staff and workers, discipline inspection, auditing, supervision, labor personnel, cadres, and organization into a single body. The superiority of this organizational format is the structural solution of the "overlapping" problem and the realization of the functions of "integrating both the tangible and the intangible and the performance of an intangible deed in a solid tangible manner" [xu shi jie he, xu gong shi zou 5711 1395 4814 0678 5711 0501 4814 0254]. In the meantime, once the "all-in-one" system is in place, emphasis should be given to the coordination of their "multifunctions," making sure that these several functions under the new system have their appropriate proportions and that no one is being left out. Special attention should be paid to the prevention of such wrong tendencies as party affairs being diluted by administration and ideology and morality being weakened by production and operation. Moreover, to really realize the core function of enterprises' party committees, party committee secretaries should be given certain administrative powers, such as simultaneously serving as chairman of the board, representative of state assets, and deputy administrator. Small and medium-sized enterprises should try their best to select an appropriate candidate who may act as both party and government leader with the help of capable assistants.

**3. The work-carrier system.** In relation to material production, the building of spiritual civilization tends to be something intangible that needs the help of certain carriers. This is like going out to sea with a borrowed "boat" to realize the set goals of spiritual civilization. First, we should use culture as a carrier. The building of spiritual civilization is a high-level cultural behavior. Through certain cultural formats, ideological education may be naturally infiltrated into various rich, dynamic, and tasteful cultural activities, and into entertainment, sports, and tourism activities that may highly interest the masses. The prevailing enterprise, campus, social, street, and family cultures are the rich fruits being reaped from the fertile soil of mass practice by using culture as a carrier in the building of spiritual civilization in recent years. Second, we should use management as a carrier.

Social psychology has proven that mankind has two natural instincts—"diligence" and "laziness." A management mechanism with a beneficial cycle will excite and motivate people for the better; on the contrary, an unhealthy management mechanism will lead to a bad tendency of slackness, laziness, and stagnation. We should improve management mechanisms by strengthening management and meeting market requirements, integrating "mechanism education" and "brain education" into one entirety in the process of practice, not only to arouse the people's working enthusiasm, but also to constantly improve and remold them. Moreover, we should use the media as another carrier. Modern media has such many functions, such as swift transmission, wide coverage, and strong infiltrating power. In the face of the ever-changing and various personnel under market competition and the emergence of so many social economic entities under management of private individuals, private enterprises, and the "three categories of foreign-funded enterprises," the use of media for the dissemination of spiritual civilization is the inevitable trend of modern society's development. Modern media, including newspapers, journals, and television and radio stations, have their special functions—which are irreplaceable by other administrative means—in promoting civilized practice, disciplining people's conduct, lashing ugly phenomena, and supervising party and government officials. Finally, we should also use activities as a carrier. The building of spiritual civilization involves the mobilization of tens of millions of people, and the extent of mass concern and participation should be an important yardstick in gauging the success and failure of the building of spiritual civilization. The unfolding of certain constructive activities will serve as an effective means in strengthening its attractiveness and appeal. The launching of a "let us love flowers and plants" campaign that encourages people to plant more flowers and plants in the streets, windows, courtyards, and rear portions of houses; the donation of cultural learning instruments by millions of primary pupils to children in old revolutionary bases, minority nationalities' regions, border areas, and poverty-stricken areas; the appeal to and organization of all personnel and workers to study science, culture, and work skills to enhance their market competitiveness; and the propaganda and educational activities of "everybody has a duty to play well the role of a host," launched in conjunction with the hosting of the East Asian Games, are all effective uses of "activities" as a carrier in beautifying the living environment, purifying social practice, fostering a good personality, and enhancing human taste.

**4. The legal protection system.** Rights, interests, and the rule of the law are the cornerstones of the market economy. The power of huge interests has driven, induced, and guided tens of thousands of economic entities and individuals to go all out in increasing their work and production enthusiasm by 10 or even 100 times; however, the question is how to protect the winners who have genuinely created values for society amid fierce and nearly merciless competition. How

should we severely and firmly crack down on the shameless scum who have caused damage to consumers? How can we regulate the activities of the various commodities swiftly circulating in such large quantities and the business conduct of enterprises and individuals? How can we curb the negative phenomena of solely pursuing fame and benefits at the expense of social interests amid fierce competition? Practice has proven that the most effective means is by establishing a healthy legal protection system. A modern market economy is a market economy based on a legal system. Although the listing of shares has tempted tens of thousands of people, the securities law has yet to be formulated. In some localities, there are situations where "authority supersedes the law" and "favoritism helps solve legal problems." Fake and substandard products become more and more rampant in the market despite repeated crackdowns. Although the emergence of tens of thousands of "companies" in a new round of "companies" craze has, to a substantial extent, affected the development trend of China's current economic life, we have not yet enacted the company law until today. Objectively, the widespread existence of these phenomena has greatly increased our burden in improving social practices and rectifying social order. The building of socialist spiritual civilization calls for speedier improvement and perfection of the legal system.

The four systems mentioned above have characteristics and functions of their own, which are interrelated and indispensable. It is only through the optimal integration of the four into one organic entirety that a large building of spiritual civilization capable of meeting the needs of the market economy can be constructed.

### III.

We must observe three principles in gradually charting and determining a new course for building spiritual civilization in a socialist market economy.

**1. In building spiritual civilization, we must promote the development of productive forces and advance economic construction.** "Spiritual civilization comes from material civilization." Likewise, spiritual civilization naturally serves as a powerful driving force for the construction and development of material civilization. According to this logic, spiritual civilization must be well-suited to the central task of economic construction. Currently, we should specifically study ways to exploit the most positive and dynamic factor among the productive forces—"human beings" which represent the optimum convergence of spiritual and material civilization—while carrying out our work. We should help people emancipate their minds; improve their ideological, moral, scientific, and educational levels; and strengthen their competitive role in the market. We should actively search for and devise ways and means to effectively promote simultaneous progress in building material and spiritual civilization. We should work hard to overcome the practices of "ostentation" and formalism that are unpopular with the grass roots and the public. We should

also try our best to conquer the "two superficialities." In serving the central task of economic construction, spiritual civilization must proceed in accordance with its own laws. One of the laws calls for direct service to this task. This law primarily urges direct efforts to promote production and economic activity through the improvement of people's ideological and professional levels. Another law calls for an indirect approach. This means nurturing a fine social atmosphere and using cultural and artistic means to refine public sentiments and character as a way of creating internal and external conditions that will facilitate smooth progress in developing a socialist market economy.

**2. We should boldly assimilate the achievements of human civilization.** During the course of practice, the human race has produced a spiritual treasure trove that satisfies the common needs of humanity, including scientific knowledge, culture, the arts, and basic moral principles. This spiritual treasure trove has become an important moral force in fueling social development because it satisfies the basic needs of humanity regardless of different social systems. We should be adept at assimilating the achievements of human civilization. Specifically, we should draw upon the experiences of

capitalist developed countries in building spiritual civilization that is well-suited to the socialist market economy. For instance, Singapore's experience in stressing moral education for young people, in paying attention to clean administration, in strengthening legal education, and in emphasizing efforts to mold a sound environment deserves to be emulated.

**3. We should carry out practical work over the long term.**

There is no definite model for building spiritual civilization; we can only explore and summarize our experience during the course of practice. When conducting practical work, we should "show enthusiasm, remain level-headed, and proceed in a down-to-earth manner." We should focus on construction instead of launching "broad criticisms" and conducting abstract debates over "capitalism" and "socialism." We should conduct bold experiments that will lead to a new course. Moreover, we should observe the objective laws of spiritual civilization and maintain the correct orientation of socialism with Chinese characteristics during the course of practice. We should be mentally well-prepared for the difficulties, contradictions, and complexities that may arise during the course of developing a socialist market economy.

## NATIONAL AFFAIRS, POLICY

## Call To Spur Domestic Product Purchases

93CM0121B Beijing ZHENLI DE ZHUIQIU  
[PURSUIT OF TRUTH] in Chinese No 12, 11 Dec 92  
pp 15-16

[Article by Zhuang Qidong (8369 0796 2639): "Talking About 'Spurring to Action' and 'Initiating Action'"]

[Text] A cadre said in a light manner: "When Coca Cola came in it took some markets and made some money, but the markets, in the final analysis, were very, very small; and it put the spurs to a large number of our beverages, of which there are now many. Is this not a case of the need to spur others on?" This might be a spur for those people who advocate closing tightly the country's gates and not allowing any advanced thing to come in. It must be admitted: the two American beverage companies that produce Coca Cola and Pepsi Cola, by investing and building factories in China, have enriched our beverage market; at the same time, their flexible marketing techniques and powerful advertisement whirlwind have really "spurred" us. To say that the markets taken, "in the final analysis, were very, very small"; and they "put the spurs to a large number of our beverages, of which there are now many" is, I'm afraid, not true, however. Please consider some facts stated by Yang Ziyun [2799 1311 0061] in his article in the 5 April 1991 issue of XIAOFEI SHIBAO [CONSUMER TIMES]: "In Beijing, which is the biggest market for selling domestic beverages, in all the large tourist guesthouses and restaurants, Chinese drinks do not appeal to refined tastes, and these places have always been the provenance of foreign brands. In external markets, after domestic first-rate goods—like Tianfu Cola, Xingfu Cola, Jianlishi, and Shaolin Cola—in succession appeared on the scene, they could not withstand the powerful offensive of foreign brands. Some withdrew from Beijing, and the market share of the others constantly shrank. In Hangzhou, foreign-brand beverages have taken 90 percent of the market, and the newly built Hangzhou Beverage Plant has been forced to stop production. In Shanghai the hundred-year-old 'Zhengguanghe' Soft Drink Plant, in order to survive, was forced to become a joint venture with foreign businessmen."

As early as 1987, the state consulted with the Coca Cola Company, and at that time it was strictly stipulated that the development of foreign-brand beverages in China would be limited in quantity. But now the quantitative quota is being broken time and again. In the period from January to October 1990, Coca Cola's output was more than 180,000 tons, close to double the output of 1989 of 94,000 tons. Now, the variety provided by the two large foreign-brand beverage companies has been expanded: besides Coca Cola and Pepsi Cola, there are Schweppes, Mountain Dew, and Seven-Up. They not only build plants in economically developed areas, but also start up distribution points in areas with fairly backward economies, and the limit on the increase in new products has

been broken time and again. Therefore, the hundreds of thousands of beverage trade staff and workers throughout China had to make the appeal: "Save the nation's beverage industry!"

From a look at the actual situation, we see that China's beverage industry does not have the kind of relaxed atmosphere that someone once described as "when one takes the initiative, others are spurred to action." The rule of contemporary capitalism is, for the sake of making above-quota profits, to not scruple at using all means of "competition"; behind each "opportunity" they provide you is a ruthless blow designed to put you in a fatal position. This is no less true of the competition between capitalism and socialism. The competition in the beverage industry is just a very small example; there are many similar cases.

I think that the state should protect advanced national industries. There is not a single capitalist country that does not use tariffs, quotas, and other measures to protect its industries, and that does not do so by all ways and means. This is because it is really a question of the nation's rise and fall, life and death. Our socialist country naturally cannot, on the pretext of "studying all the good things of capitalism," submissively hand over our markets to some bloody foreigner. When we say protect, of course we do not mean the protection of the backward, do not mean the protection of bogus or inferior products, but rather mean the protection of products up to world standards that have, through hard work, really been produced by us. In this respect, we must do a lot of work; and if "going ten thousand li for quality" is insufficient, it is worth going a hundred thousand li.

We should publicize among the masses the idea of treasuring China-made goods. The attitude and opinion that winks at Coca Cola's and Pepsi Cola's taking China's market and dumping large amounts of beverages in it, and that thinks that for China-made beverages to be driven out of China's market is getting what we deserve, speaking rudely, can hardly be regarded as less than subscribing to the mentality of foreigners. Don't we hear this kind of talk: "In our home, except for water and air, everything is foreign made; even the children's diapers are made in Japan." If one is moved to rapture over foreign-made goods and considers them gods to be worshipped, it is doubtful that in one's heart there is any "Chinese soul."

Our market economy is a socialist market economy, and is integral part of the basic socialist system. The future development of the nation's industries is not immaterial to China.

## General Manager System Urged for Enterprises

HK2401064593 Beijing RENMIN RIBAO in Chinese  
4 Jan 93 p 5

[Article by Luo Jingfen (5012 4737 1164): "The Establishment of Competition at Managerial Levels Will Guarantee the Transformation of Enterprises' Operational Mechanisms"]

[Text] The goal of transforming enterprises' operational mechanisms is to make the managerial levels enterprises of whole-people ownership work dutifully, diligently, and as best they can to safeguard and continuously increase the value of the assets under the conditions of market competition and with independent operations, even though they are operating someone else's assets (the shareholders may be the government, enterprises with legal entities, or ordinary people). This concept was put forward in response to maladies generally found in many enterprises of whole-people ownership. Many enterprises of whole-people ownership in our country are eating from the state's "same big pot," not caring whether the state assets are increasing in value or suffering losses in operations. About 30 percent of the state-run budgetary industrial enterprises are currently operating at a loss, not counting hidden losses. Therefore, the key for transforming enterprises' operational mechanisms lies in injecting a sense of vocation and responsibility in company managerial levels (above all among general managers). For this, it is necessary to introduce a mechanism of competition and elimination in the managerial personnel recruitment process through a reform in the personnel and distribution systems and to tie in managers' individual fortunes with those of the enterprises so that the two fall and rise together. Large modern corporations in capitalist countries, whether privately or publicly owned, are all doing this. In these corporations there is a separation between owners and operators of assets, and unlike individual businessmen, managers in these corporations are not operating his own, but someone else's assets. Still, they devote themselves to the job, trying their best to avoid failure, achieve maximum marginal profits, and score successes in competition. Although it is the asset-owners who will reap most of the revenues from successful corporate ventures and bear the losses from bad deals, the fortunes of the managerial levels are nevertheless closely tied with company's performance and subject to the will of the asset-owners. If company business is good, the manager will get honor and privileged treatment from the asset-owners. He will have more income, higher social status, a greatly enhanced reputation, and, when his employment term is up, high-pay and high-position offers from many other asset-owners. He will get special care from asset-owners even after he has left the office or has been transferred. If company business turns sour, the manager will lose his reputation, which will jeopardize his prospects of finding another equally high-positioned job in the industry, with the result that he may have to settle for a lower position with a firm at a lower rung. Sometimes a manager's career would simply be ruined. A corporate managerial man therefore sets great store by market surveys, will identify correct targets for investment, improve operation modes, rationalize production and labor setups, work actively to tap the talents of all workers, go through problems with them, work hard to earn additional profits with less input after paying interests, taxes, and the lowest expected dividends to investors. When new and additional increases in capital, wages, expenditure and so on cannot promise more marginal profits or when

he is not very sure of it, he will not easily commit these additional inputs, even though he has raised from many quarters sufficient working capital and is able to pay workers wages. In a word, corporate managers are passionate about increasing the value of assets not their own. We need to raise and train a great number of such entrepreneurs and encourage such an entrepreneurial spirit in our enterprises of whole-people ownership. These people do not make immediate material interests their primary concern, but seek to realize their social value and strive to maximize the firms' marginal profits in an environment of equal competition and independent operations. Only thus can we fundamentally solve the long-standing problem of low economic efficiency and lay a solid foundation for a macroscopic management system that features chiefly not direct, but indirect regulation and control.

The transformation of enterprises' operational mechanisms has lately become a hot social topic. In a more popular view, the transformation of enterprises' operational mechanisms aims to gradually transform enterprises of whole-people ownership into independently operated commodity producers and operators responsible for their profits and losses, with the emphasis being laid on expanding enterprises' decisionmaking powers. True, it is very important to expand enterprises' decisionmaking powers in personnel, labor, wage and bonus distribution, pricing, investment, and import and export operations. This is a necessary, objective requirement and premise for establishing a responsibility system among corporate managers and achieving the transformation of enterprises' operational mechanisms. Otherwise corporate managers would find it hard to take responsibility for the performance of the company and its profitability, if all of the firm's operational decisions are made by higher administrative departments. But in some areas we still need to probe further before we can come up with a more specific accounting.

1. Who is to bear the responsibility for profits and losses? It is often said that enterprises will bear their own profits and losses. In fact, as a body, a firm can only audit profits and losses, and cannot be made to bear the responsibility and risks for them. This gives rise in practice to the phenomenon of claiming for profits and not losses. As we all know, an enterprise consists of three groups of people: Workers, managers, and owners. Let us take a look at the group that can actually bear profits and losses. When a firm suffers from business failure and losing money, the workers can never compensate the firm for capital loss. What they lose is their work positions. Meanwhile, to maintain social stability, the government will arrange for most of the out-of-job laborers to be absorbed by other enterprises, which will arrange new jobs for them. This is usually done through job referrals and occupational training. On the other hand, it will be hard for the firm manager to pay for all the capital loss. Therefore, enterprises bearing their own profits and losses means in practice that the asset-owners will bear the debts. This is true for enterprises in both

competitive and noncompetitive sectors. Therefore, confining the goal of transforming enterprises' operational mechanisms to having enterprises bear their own profits and losses, in the hope that they will thereby assume responsibility for state-owned assets operated under their management, will not achieve anything.

2. Correctly evaluate the role of shareholding in the transformation of enterprises' operational mechanisms. Transforming an enterprise's operational mechanism means reforming the internal mechanisms of an enterprise, not the way an outside authority manages an enterprise of whole-people ownership. The currently popular efforts of clarifying property rights relations and instituting shareholding systems are actually efforts to improve the way the government manages enterprises of whole-people ownership and to restructure the composition of the capital funds of these enterprises. In fact, the state is the owner of enterprises of whole-people ownership. The property rights relations between the two sides are very clear and not ambiguous at all. Since the beginning of reforms, there has been the practice of integration in which several enterprises or units come together to form a business conglomerate using publicly owned property and property of legal entities. Property between them is settled and audited at the time of integration so property rights relations are also very clear. But the duties of asset-owners are not reflected in the organizational setup or realized with the persons-in-charge. Shareholding is an effective way for enterprises to raise capital for expansion, able to convert directly residents' currency income into capital for production and construction and expand rapidly the scale of operations of state-owned assets. This should be fully affirmed. If at the same time we set up a state-owned assets management committee (or a holding company) as a full representative for state-owned assets acting as an asset-owner, it will become possible to openly advertise for, select, or recruit corporate general managers, institute a general manager system in the enterprises, and supervise the use of state-owned assets by the general managers. This personification of publicly owned assets will help separate the state's economic management functions from the government's functions of operating assets as an asset-owner. But all these are still reforms in the external controls on enterprises, not changes in enterprises' internal mechanisms, and as such can only create at the most some external conditions for transforming enterprises' operational mechanisms. Theoretically speaking, if a firm's performance is bad, its shareholders will sell their shares, causing the firm's market value to drop and hurting the enterprise's name, and all this will force the firm to improve its operations. But this requires first of all a normal stock market with an overall equilibrium in demand and supply. There will not be such an environment in our country for quite some time. Second, even when shareholders have "voted with their feet," it will not do any good until the board of directors has voted by a show of hands and until a mechanism of competition is established on the managerial levels. This is particularly true with shareholding enterprises as most

of them allow only a very small proportion of shares for private shareholders or the general public. Although the present regulations allow private shareholders to hold up to 25 percent of a company's total shares, there will be tens of thousands of these private shareholders, disorganized and highly mobile, with frequent shares trading and constant changeovers of shareholders. Shareholders want to make money on the stock market and do not care much for the dividends or shares awards a company gives after a year of good business operations. Therefore it is hard to conceive how such a shareholding system could effectively restrain firms' behavior to make possible a transformation of enterprises' operational mechanisms. Under the traditional system, not all of the corporate managers are meticulous with the state-owned assets under their charge; nor has the spending of repayable bank loans in the manner of "eating from the same big pot" stopped after "money allocations were tuned into loans," as some people would want us to believe in their propaganda. Many firms give no thought to their repayment ability. If there are no thorough reforms in the recruitment of corporate managers and the distribution system, it is hard to conceive how corporate managers will reverse their behavior and become very meticulous with the nonrepayable funds raised through share issues.

Thus we see that the keys for transforming enterprises' operational mechanisms and making managers work their best to maintain and increase the value of operational assets lies in establishing a mechanism of competition among managers and a system of handsome reward and heavy punishment. The goal of our country's economic reform is build a socialist market economic system. Of all the factor goods markets, the entrepreneur market is the most important. Without a sound entrepreneur market, other factor goods markets will not function normally and will become counterproductive.

## FINANCE, BANKING

### Foreign Debt Situation Analyzed, Policies Proposed

93CE0253A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 11, 11 Dec 92 pp 21-29

[Article by Lu Linshu (6424 2651 2579): "China's Foreign Debt Situation and Some Policy Suggestions"]

[Text] Making use of international fund markets via several channels and different formats to raise large sums of foreign loans to develop the economy has become an important part of China's strategy to utilize foreign capital. Since it began borrowing foreign money in 1979 until the end of 1990, China's debt balance has grown to \$52.55 billion. Facts prove that borrowing large sums of foreign loans can effectively promote the development of the nation's economic undertakings. China has had a taste of the benefits of the strategy of using international debts to finance its development, but at the

same time it has also become a large international debtor nation with substantial debts. The next 10 years will be most critical to China's economic development. The task of borrowing foreign loans will continue to mount, and foreign debts will play an increasingly important role in the development of the nation's economy. Thus, it is vital that we make an objective analysis of our current foreign debt situation.

### **I. The Three Stages of China's Foreign Debt Development**

Judging by the general law of motion of international debts and the actual increase and development of China's foreign debts, this country has gone through three stages: (a) China first began borrowing foreign loans in 1979-1983. During this period, China was still exploring international fund-raising channels; its foreign debts increased at a slow pace, with the debt balance growing at an average of \$800 million a year. (b) 1984-1988 marked a period of rapid increase in foreign debts, at an average rate of 58.49 percent a year; the foreign debt balance grew as much as \$7.2 billion a year, 9-fold the balance of the previous five years. By 1988, its total debt reached \$40.003 billion. Looking at the characteristics of China's debts and their impact on the country's economic development during this period, China was but an amateur debtor in the international community. (c) In 1989 and 1990 China's foreign debts increased at an average rate of 14.61 percent a year, 43.88 percent lower than the 58.49 percent in the previous period. This says that after a period of super-high rate of growth, China's foreign debts have entered a period of relatively steady development. In this period, China slowly developed into an experienced debtor, and its utilization of loans also gradually entered a normal developmental stage. This period was marked by three distinct characteristics: One, despite the net inflow of foreign loan funds, as the debt base continued to grow, the rate of increase in the debt balance slowed. Two, we withstood the test of peak debt payment. Three, as the foreign debt management system and the policies and laws continued to improve, we began to develop a sound loan borrowing-using-repaying system which became fairly effective. Therefore the growing debts have increasingly become a positive factor, and an important means, in effecting China's economic growth and healthy development.

### **II. An Analysis of China's Current Debt Situation**

#### **A. An Analysis of the Foreign Debt Situation and Its Structure**

In the decade of so from 1979 to 1990, China's debt balance grew from practically nothing to \$52.545 billion. In particular, under the Seventh Five-Year Plan, net foreign debts grew by nearly \$37 billion. Whether we are looking at the scope or the rate of increase, no other nation in the world has had this kind of debt history.

As we know, the type of foreign loans and the cost of those loans are the first link that directly affect the use and repayment of a nation's debts, and the choice of

currency and the interest terms are the basic factors that directly affect the composite cost of foreign loans. Looking at China's loan structure so far, despite some problems, the overall structure is fairly sound.

1. The regional and national composition of foreign loan fund sources: As a result of many years' hard work, China has continued to make good process in correcting the problem of over-concentration of loans from only a handful of regions; the nation-mix of its foreign loans has much improved. In the five years from 1979 to 1983, 85 percent of China's foreign loans were from Japan, Hong Kong and a handful of other Asian countries (regions); little money came from Europe and America. But in 1990, the percentage of loans from Asian countries has dropped to 64.8 percent while loans from Europe and America have increased to 17 percent and 3.3 percent, respectively. The number of nations (regions) lending money to China has also increased to more than 30 by 1990. Among the top five, Japan still ranks first, accounting for 47.42 percent; the former West Germany ranks second, and the remaining ones are Great Britain, France, and the United States, in that order. Hong Kong and Macao are still where China obtains the bulk of its international credit funds, but their share has fallen to 11.88 percent. The above change obviously is helpful in reducing China's loan risks and is in line with the principle of minimizing and dispersing the risks and diversifying the source of loan funds.

2. The term structure of foreign debts: The term structure of China's foreign debts is fairly sound and healthy. This is seen especially in the following two areas: First, our short-term loans have always remained within the internationally accepted level. The international community believes that if short-term loans make up more than 25 percent of a nation's loans, it has a disproportionate amount of short-term loans, and if there is a cash-flow problem, it can lead to a debt crisis. In 1982, the developing nations on the average had as much as 41 percent short-term debts, and even as much as 44 percent in Mexico. This abnormal term structure became the fuse that triggered the debt crises in various heavily indebted South American nations in the 1980's. In 1985, short-term debts also made up more than 40 percent of China's total debts; they made up a disproportionate share. Learning a lesson from the others, the Chinese Government adopted a strict management method to control the short-term foreign debt balance which effectively controlled the excess increase in short-term debts. Since 1986, short-term foreign debts have fallen below the internationally recognized safety line. Second, the loan terms are longer. The steady decline in the share of short-term loans and the fairly rapid increase in intermediate- and long-term loans have continuously extended the average repayment period of China's debts. In 1990, the average repayment period was 13 years, and for the intermediate- and long-term debts, the average repayment period was even longer—over 15 years. In 1990, intermediate- and long-term loans accounted for as much as 87.12 percent of all debts: specifically,

around 38.9 percent were one to five year term loans; 38.6 percent were five to ten year loans; 9.6 percent were 10-50 year loans. A debtor is clearly less hard-pressed with regard to repaying the huge debts under these conditions, and it has more time to fulfill its contract to repay the principal and interests. We should note that because of the relatively short loan terms and the fairly rapid increase in loan balance each year, even though China has never had a serious payment problem, it still cannot escape the peak debt payment period because several payments of principal and interest are due at the same time. Statistics show that between 1985 and 1990, China's foreign debt balance continued to increase at an average of more than \$8 billion a year. Its debts were too concentrated and the repayment time was not sufficiently spread out. Huge sums of principal and interest payment for loans borrowed in the early and mid-1980's had to be repaid in the late 1980's and early 1990's, and the state had to pay a huge economic price for it. We should learn from this profound lesson.

3. The interest rate structure: Prior to 1984, all of China's foreign debts were basically fixed rate loans. Since 1985, as commercial loans increased, variable rate loans have also increased. In 1990, there was a even number of fixed and variable rate loans. As things stand, we do not have a disproportionate amount of variable rate loans (compared to 68 percent for other developing nations), but from the standpoint of the actual benefits of China's foreign loan utilization, we should limit variable rate loans as a precautionary measure. Currently China's interest payment on foreign debts is still within the low to moderate range: around 56 percent are low-interest loans at 0-5 percent; 40 percent are moderate interest loans at 5-8 percent; only a handful are high-interest loans at above 8 percent. But looking at it from another perspective, interest rates tend to be rising. In 1988, the average interest was only 5.36 percent; in 1989 and 1990, it rose to 5.37 percent and 5.54 percent, respectively. The overall interest rate is not that high compared to those paid by other developing nations, but we should prevent the rates from creeping higher.

4. The currency composition: In 1985, China's foreign debts consisted of only a handful of currencies—the US dollar, Japanese yen, mark, and Hong Kong dollar. This currency-mix lacked diversity. After 1983, the types of currencies began to increase, and by 1990, there were more than 20 different currencies. But the problem of lack of diversity in the currency-mix basically has not been solved. Primarily: One, by 1990, Japanese yen and US dollar still accounted for 76.9 percent of all debts. Such debt structure was once classified by the International Monetary Fund as an unsafe currency structure. Two, although the proportion of debts in Japanese yen which is appreciating in value has declined, it still accounts for as much as 30.9 percent and is still the major currency that can cause trouble. At first, compared to the US dollar and the British pound, the large Japanese yen loans China took out had the lowest interest rate. For example, in 1990, interest rate on the

British pound was as high as 6.6 percent, and the US dollar loans from the United States were even higher, at 7.35 percent, compared to Japanese yen's 5.66 percent. From this standpoint alone, borrowing Japanese yen was to our advantage, but if we take everything, including the changing exchange rates, into consideration, the Japanese yen loans become very expensive. This also shows that in choosing a specific currency as the unit of valuation for any loan, we should take into account the change in interest rates, foreign exchange revenue from trade, and the currency of settlement and other factors, and meanwhile, if possible, we should make every effort to pair up soft and hard currencies when we borrow money.

#### B. An Analysis of the Foreign Debt Scope

Foreign loans are in fact payment for future resources in advance and is the allocation of future national income before it is earned. Money borrowed today necessarily means money to be paid back in the future. Only by controlling foreign debts to within the scope tolerable by the country's economic development will the utility of foreign loans outweigh their cost and only then can the entire economy go through a benign cycle; otherwise, economic development cannot keep up with the debts and it will lead to huge losses. Thus in discussing whether the foreign debt scope is proper and reasonable, we are in fact discussing the relationship between the amount of foreign loan funds and a nation's actual economic tolerance.

Internationally there are many norms for gauging a nation's debt scope and its foreign debt tolerance, but the most often-used standards are the debt-to-economy ratio, debt-to-export ratio, and debt repayment ratio. Generally, the debt ratio (the ratio of foreign debt balance to GNP) should be within 30 percent; the debt service ratio (the ratio of foreign debt balance to foreign exchange earned from export and labor services) should be within 100 percent; and the debt repayment ratio (the ratio of the sum of principal payment on intermediate- and long-term debts plus interest payment on all foreign debts to that year's export-generated foreign exchange income) should not exceed 20 percent. Within those limits, the country should not have a serious payment problem. In the seven years from 1984 to 1990, China's foreign debts never exceeded the internationally recognized safety lines in terms of these three norms, and even in 1990 when the three norms peaked, they were 14.45 percent, 87 percent, and 8.33 percent, respectively; we had a wide safety margin.

But to judge the safety of a country's foreign debts based only on the above norms is not completely reliable. World Bank conducted a survey of dozens of developing nations which showed that 11 of the nations whose debt repayment ratios were below 20 percent still faced debt crises and were forced to restructure their debts; nine nations with debt ratio below 30 percent and three nations with debt service ratio below 100 percent were

also forced to restructure their debts. Korea's debt repayment ratio exceeded 30 percent at one time, and even reached 41 percent at its peak, but it never had a debt crisis, but some low-income nations such as Tobago had trouble repaying their debts even when their debt repayment ratio was under 7 percent. This says that a nation's foreign debt scope cannot be gauged by only one or two norms. We must make a thorough analysis of all the factors that can affect the nation's foreign debt scope.

One, the type of economy: If a nation's economy is a typical internally oriented economy, if it is not open to the outside world, if its foreign trade scale and volume are small, and if it does not have sufficient source of foreign exchange, it can run into debt payment problem even with little foreign debt. China's foreign debts began to soar and surpassed by far the rate of economic development after 1985, and in particular, in 1989 China faced the first peak debt repayment period when payment of principal and interest exceeded \$10 billion, but we did not sink into the quagmire of debt crises. This was mainly because in a short decade or so, guided by the correct ideology of utilizing both domestic and foreign resources and both domestic and foreign markets, we had put the national economy successfully on the road of greater openness.

Two, generally speaking, nations that are more open to the outside world can stand a higher debt ratio, debt service ratio, and debt repayment ratio, but they must still pay attention to their own national industrial structure, export mix, real ability to earn foreign exchange, and the constraining effect import has on the nation's economic development and other critical factors, because the rate of increase and the scope of a nation's import and export are directly tied to its ability to repay its foreign debts and in turn affect that nation's foreign debt scope.

Three, the question of new found sources: If a nation's debt repayment ratio is fairly high but international lenders or investors still have confidence in that country's economy, they will continue to provide it with loans, and even if there is a debt payment problem, it can still borrow new loans to repay old debts and avoid a debt crisis. Conversely, even if a nation's debt repayment ratio is not very high, if there is no reliable new source of funds, its future debt repayment ability will clearly be lacking, and this will directly affect its present and future foreign debt scope.

Four, the foreign debt structure: China has a fairly good debt structure, but we should realize that there are still many problems with its mix of fund sources, the most serious of which is that the share of preferential loans which come from official sources has been on the decline, and the share of commercial loans has been rising rapidly, exceeding 72.07 percent in 1990. Everyone knows that commercial loans are costly and risky and are often the fuse leading to the deterioration of a nation's foreign debt situation. India and Argentina best demonstrate this point. India's foreign debt

exceeded \$60 billion in 1990 when its debt repayment ratio reached 21 percent, but because they had a large percentage of long-term, low-cost official preferential loans (72 percent in 1990), despite their years of balance of payment deficits and although they had great difficulty in repaying their debts, to date, no debt crisis has occurred. Conversely, when Argentina faced its debt crisis, its foreign debt scope was not enormous, and its debt ratio was only 13.6 percent; however, commercial loans accounted for as much as 75 percent of its total debts, and because of its inability to pay back the huge sums of principal and interest, eventually it could not escape the debt crisis.

In short, China's foreign debt scope is still within what its national strength can withstand. Relative to its economic strength and economic scope, China still has potential to take out more foreign loans, but relative to the rate of economic growth and the rate of increase in export-generated foreign exchange and the current export mix, its foreign debts seem to be increasing a little too fast. Considering the fact that China has to pay back around \$8 billion in foreign loan principal and interest a year (the amount actually exceeded \$10 billion in 1989 and 1990), China already has a fairly heavy debt burden, and if we further consider the foreign debt structure itself, we should really be careful about expanding the foreign debt scope in the future.

#### C. How Foreign Loans Are Put to Use

The direction and efficiency of use of foreign loans has a direct impact on whether we can pay back our foreign debts on time and in full. It is the most important among the three links—borrow, use, and repayment—of foreign debts. Below, we will analyze from three different perspectives how China's foreign loans are put to use.

##### 1. The overall distribution of foreign loan funds among different industries:

A) The direction of input of the nation's foreign loan funds is fairly consistent with the practical needs of China's industrial development.

In 1990, 20.5 percent of the loan funds were put into the transportation and communications industry; 16 percent in energy projects; 15.8 percent in excavation, machinery, chemical industry and so on; 47.7 percent went to agriculture, the tertiary industry, and light and textile industries. Most of the short-term foreign loan funds were diverted to the light and textile industries (17.87 percent excluding funds re-lent to other sectors), and commercial residential service industry (13.1 percent excluding funds re-lent to others). Most of the long-term loan funds were spent on the nation's "bottle-neck" industries that were blocking China's economic development, and most short-term foreign loans were put into the light and textile industries and projects that earned foreign exchange and generated quick results. This shows that basically all of China's foreign loan funds are used on productive and constructive projects. The industrial structure of China's foreign loan funds

basically has made a transition from "infrastructure-type" to "mixed infrastructure-and-foreign-exchange-earning-through-export-type." This structure is fairly good and plays a positive role in remedying the weak links in China's national economy, increasing our economic development's staying power, and increasing our ability to export more and earn more foreign exchange.

**B). The direction of input of the three types of borrowers of foreign loan funds:**

Generally there are three types of borrowers in the international community: the public sector, financial institutions, and the private sector, and in China they are represented by the government departments, domestic financial institutions, and enterprises. They make up China's three main groups of borrowers of foreign loans. They have different interests in mind and face different external conditions and the emphases of their use of loan funds are very different. When our government departments—including the ministries and commissions; provincial, autonomous regional, and municipal governments; People's Bank of China—borrow money abroad, an important factor is that they can obtain preferential loans, 100 percent of which are intermediate- and long-term loans. Looking at the direction of use of foreign loan funds by various ministries and commissions of the State Council, 45.9 percent are concentrated in the transportations and communications industry; 9.3 percent in agriculture, animal husbandry, and fishery; 9 percent in energy industry; 7.3 percent in science and technology, education and public health, and sports. The provincial and municipal governments' foreign loan funds are mainly put into the energy and communications industries, which accounted for 54.5 percent and 8 percent respectively after excluding those funds re-lent to other sectors.

China's financial institutions, including Bank of China and other domestic financial institutions and leasing companies, account for 47.62 percent of the intermediate- and long-term foreign debts and 90.91 percent of the short-term foreign debts. Most of Bank of China's foreign loan funds are put into the excavation, machinery, chemical industries (32.5 percent), and energy industry (29.4 percent); other domestic financial institutions and leasing companies mainly put their foreign loan funds in the excavation and machinery and other manufacturing industries which account for 23.6 percent excluding funds lent out to others; light and textile industries (16 percent excluding funds re-lent to others); commercial services (11.6 percent excluding funds re-lent to others).

Enterprises, including domestic enterprises, sino-foreign joint ventures, sino-foreign contractual joint ventures, and wholly foreign-owned enterprises, account for 24.21 percent of the long-term foreign debts and 9.1 percent of the short-term foreign debts. The domestic enterprises' funds are put mainly into the transportation and communication industries, which account for 47.1 percent;

energy industry, 21.7 percent; excavation, machinery, and chemical industry, 19.1 percent. Most of the foreign-invested enterprises' [FIE's] funds are put into commercial service industry (53.3 percent); energy industry, 11 percent; light and textile industries (10.2 percent); electronics industry (7.4 percent). Because the government departments can make comprehensive use of their foreign exchange funds, most of their foreign loan funds are put into basic industries that cannot earn foreign exchange and on the weak links in the nation's economic development. Bank of China is the largest bank representing the state in its foreign financial dealings; most of its investment projects are guaranteed by local governments, and so a fairly large share of its foreign loan funds are put into the "bottleneck" industries. Other financial institutions and FIE's must consider the terms, benefits, and foreign exchange payment of their loan projects, and so they mostly put their loan funds in light and textile industries and commercial service industries and other industries that generate quick return and earn foreign exchange. Overall, most foreign loan funds are controlled by the government, and the structure of input of such funds basically complies with the state's policy intention.

2. The conflicts and systemic factors in how foreign loan funds are put to use: One, basic industries generally have more serious loan payment problems. Currently China's central and local systems are plagued by separatism; its foreign exchange market is underdeveloped; the localities' and departments' foreign exchange cannot circulate freely; units that earn foreign exchange cannot use their surplus foreign exchange to help out units that urgently need foreign exchange. As a result, so far as basic industries that do not earn foreign exchange are concerned, their debt payment problems are inevitable. Central-level projects benefit from the central government's ability to raise and utilize foreign exchange and its fairly secured fund sources, and so they face less serious debt problems. But local government projects are clearly more of a problem. Two, one of the main characteristics of China's existing economic system is that, affected by administrative separation and devolution of power and by the increasingly diversified investment entities, and because the market system is still imperfect, the state's industrial policy cannot be implemented properly, and in terms of the use of foreign loan funds, this is manifested in the phenomenon of recklessness, redundant importing, and stockpiling and idling of goods brought in as massive foreign funds are put into various businesses in the processing industry.

**D. Repayment of Foreign Loan Funds**

Whether there is sufficient ability to repay the debts and whether the debts can be repaid when due are basic norms gauging a nation's overall foreign debt safety. Looking at the payment of principal and interests between 1986 and 1990, China did fairly well. In those five years, China's average annual foreign debt payment was \$9.032 billion, 19.4 percent of the average export value for that period. Because of the relatively low base

prior to 1986, the debt payment increased fairly rapidly in 1986 and declined somewhat in 1987. Since entering the first peak debt payment period in 1989 until now, no major class of debtors have been found to be in default or facing serious payment problem, and there has never been an incident of refusal to pay. It is for this reason that China's reputation in the international financial market is soaring. An analysis based the State Administration of Exchange Control's statistics shows a fairly high concentration of intermediate- and long-term loans in the early to mid-1980's, and today they are in the peak principal and interest payment period. This period will last until 1994, with estimated principal and interest payment of more than \$10 billion a year. Moreover, since 1987, we have begun and have continued to borrow new loans to pay off old debts. Even though these new loans make up a fairly small percentage of the total debts, the trend is developing rather rapidly, reaching 9.2 percent in 1990. Thus if the foreign debt scope should continue to expand at the present rate, foreign debt payment will have an increasingly serious effect on China's economic development. In other words, even though the large sums of debts China has to repay each year have not constituted a debt crisis yet, they have put pressure on our economic development.

First, foreign debt payment is making up an increasingly larger part of the financial expenditure, exacerbating China's tight financial situation. According to the State Administration of Exchange Control's data, from 1986 to 1989, China financial deficit was 32.42 billion yuan, and in the same period, the financial ministry's payment of principal and interest on foreign debts came to 17.486 billion yuan, 53.94 percent of the deficit.

Second, at the present stage, China's exports' debt-tolerance is limited. Any excess increase in debts will necessarily exacerbate our payment problem. Although China's debt repayment ratio is still under 10 percent, the debt service ratio has increased from 53.4 percent in 1985 to 87 percent in 1990.

Furthermore, China's economy is fairly import-dependent today, and because of the inelasticity of imports, it is fairly difficult for us to import less. Statistics show that since 1985, China's import-dependency has been over 14 percent, and from 1984 to 1990, the marginal propensity to import averaged 0.24 each year, which means to increase the national income by 1 yuan, we must import 0.24 yuan's worth of goods and materials. In most years, the elasticity of demand for imports remained above 2, meaning that to increase national income by 1 percent, import must increase by more than 2 percent. Clearly the national economy is highly dependent on imports. China is in the midst of large-scale industrial modernization and urgently needs to absorb large amounts of advance international resources; there is little room for reducing import. Looking at the relationship between import, economic development, and debt payment, there is a need to control the momentum of debt increase.

Finally, there is a close relationship between a nation's ability to repay its debts and the amount of liquid assets it has and its ability to obtain current funds in the international market. Since 1982 China has kept a foreign exchange reserve of over \$10 billion; it topped \$28.6 billion in 1990. Even when our foreign exchange reserve hit a low point in 1986, we had sufficient funds to pay for 2.9 months' worth of imports. But China's foreign exchange reserve includes Bank of China's foreign exchange cash holding, which should not be counted as part of our ability to repay debts, because part of this cash holding is funds owned by Bank of China and the rest is the debt itself.

Internationally, it is generally believed that a nation should have a foreign exchange reserve sufficient to meet payment for two to three months' worth of imports. If we exclude Bank of China's foreign exchange cash holding, China's international reserve is limited. Since China's foreign debt scope is already significant, we should look squarely at our current foreign debt repayment ability with an objective and cautious attitude.

### III. Policy Suggestions To Further Improve China's Debt-Related Work

#### A. Coordinate the Three Links of Borrowing, Utilizing, and Repaying the State's Foreign Loans and Strengthen Macro Management

1. China's foreign debt management system: China's foreign debt management tasks are divided among several departments, with the State Planning Commission responsible for drawing up the foreign capital utilization plans. Loans from official sources are administered by MOFERT [Ministry of Foreign Relations and Trade], the Ministry of Finance, People's Bank of China and other government organs; commercial loans are examined and approved by People's Bank of China which has designated 10 foreign loan "windows"—Bank of China, Communications Bank, China Investment Bank, China International Trust and Investment Company, the Guangdong, Hainan, Tianjin, Dalian International Trust and Investment companies, Fujian Investment Enterprise, and Shanghai Investment Trust Company. These 10 windows may be entrusted by other units to raise commercial loan funds or issue bonds in the international financial markets. The state has adopted different methods to manage loans of different terms. For intermediate- and long-term loans, the state plans and controls the actual amount being borrowed each year. Short-term loan plans only control the increase in loan balance and do not control the actual amount being borrowed each year. As for how the loans are put to use, generally, they are allocated according to plan. China's loan activities—how the loan funds are put to use—normally involve the re-lending of loan funds by the financial ministry and banks and other institutions in the form of "secondhand loans" to units actually using the money. The responsibility of monitoring the borrowed funds lies first with the department re-lending the loans. If the loan-finance projects prove to be unprofitable, it will

directly affect that department's ability to repay its debts on time. From the point of the foreign debt repayment responsibility, there are three classes of loans—centrally borrowed and centrally repaid loans; centrally borrowed and independently repaid loans; independently borrowed and independently repaid loans. The first two are foreign loans borrowed by government departments, and of course they should be repaid directly by the government. However, local and department enterprises are in fact responsible for repaying the centrally borrowed, independently repaid loans, even though the state is still ultimately responsible. By law, independently borrowed, independently repaid loans are different from loans taken out by the state; the central government in principle is not responsible for repaying those debts; the borrowers acting as independent legal persons must repay those debts. But because the borrowers are Chinese citizens, their debts are including in China's total foreign debts, and if they have a problem, it will also affect the nation's reputation abroad.

2. Main problems in debt management and some improvement suggestions: First, foreign debt management organs are still widely scattered; the soldiers are divided up and each worries only about himself. Besides the five government departments designated by the state to take care of the official foreign loans, there are the 10 big windows borrowing commercial loans from abroad. Local financial institutions and the larger companies and enterprises too can also borrow foreign loans. Today, as many as a hundred domestic institutions have the right to borrow foreign loans. Since the state's macroeconomic management is still rather weak, giving too many organs the right to authorize loans and allowing too many units to take out foreign loans clearly do not help the nation control its foreign debt scope. When too many institutions swamp the international financial market or when several institutions get into the same market at the same time, it inevitably will raise our cost of borrowing. This is a potential danger which can lead to the loss of foreign debt control. Second, the current debt management system still relies heavily on administrative measures; we clearly do not have sufficient legal and economic means. The existing method of planned management controls the total amount of money the units may borrow and allocates the State Planning Commission-set quota of intermediate- and long-term loans among the departments and localities and requires them to keep within that quota each year. This method does not address the problem of failure to reach the overall goal as scheduled nor the counter effects of the changes in term distribution, types of currency, and interest rates on our foreign debts, and ultimately it can lead to loss of control or structural imbalance. Three, the FIEs' foreign loans have surged in recent years, but they have not been put under state management. Foreign debts incurred in international financial leasing and compensation trade paid with spot exchange are also in a laissez faire state. These are "problem spots" in China's current foreign debt management. Four, today, except for the self-owned foreign exchange funds managed by Bank of China and

for the state's foreign exchange reserve, the state has no centralized means of regulation and utilization of foreign exchange funds borrowed by the domestic units, including official preferential loans. The loan management organs are imperfect, and many borrowing units are stuck with losses when conditions in the international financial market change; they have no active means of avoiding those risks.

In view of all these, the state must improve coordination of the borrowing-utilization-repayment links and strengthen its foreign debt management. (i) It should set up a specialized organ to manage foreign debts—the State Foreign Debt Management Committee, to put its foreign debts under centralize and unify management, and it should join with the relevant departments in implementing a unified policy and formulating a unified plan to manage all of the state's debts and radically change the current situation where the foreign debt management is plagued by departmentalism and separation of power between central and local governments. It should coordinate the actions of the foreign loan "windows" and the debtors and supervise the localities, departments, and enterprises effectively in their application and reporting, examination and approval, and utilization and repayment of foreign loans. Its main function should be to make unified foreign debt decisions and formulate a scientific foreign loan strategy and determine the scope and structure of foreign debts based on the national economic development strategy and industrial policy; draw up foreign debt policies and rules and regulations as well as short-, intermediate- and long-term foreign debt development plans, and, as the economic situation changes, it should utilize credit, interest rates, exchange rates, and reserve funds and other economic measures in a timely fashion to regulate and control foreign debt input and scope. It should designate the foreign debt management organs, foreign debt usage, and repayment methods and specify the responsibilities, rights, and privileges and the obligations of the debtors and coordinate the various domestic financial institutions' activities as they enter and exit the international financial markets. It should study the debt ratio, debt service ratio, and debt repayment ratio and formulate debt payment measures; do a better job in gathering of statistics, making forecasts, and monitoring the foreign debts. As the balance of China's foreign debts continues to increase substantially year after year, strengthening the centralized coordination and macro management of foreign debts has become a pressing matter. China should learn a lesson from the debt crises in Brazil, Mexico, and Poland created by their decentralized foreign management systems and learn from Korea and other nations' successful experiences with their centralized foreign debt management system, so that as we become more efficient in handling our foreign debts, we can realize the state's foreign debt macro regulation and control goals. (b) The state should strengthen comprehensive foreign debt management. We should further tighten the control over the foreign loan windows and specify the responsibilities of each window and gradually

develop them into main channels that can influence the behavior of the nation's borrowers and the state's decision to borrow international credit funds, so as to ward off a sudden surge in foreign debts and loss of structural balance caused by "outside-the-window" borrowers. The FIE's foreign debts, leases, and compensation trade which are paid back with spot foreign exchange should be put under proper restraints using such method as balance control. Foreign debt management should gradually become more comprehensive, using legal, economic, and administrative means but relying primarily on legal and economic management measures. We want to create a standardized foreign debt management system which is strict but not rigid, lively but not chaotic.

B. We should control the improper increase in the foreign debt scope to put the scope and the rate of increase within proper limits. To accelerate the four modernizations, we should maintain a proper rate of increase in the foreign debt scope, which means we should maintain a certain amount of net inflow of foreign loan funds. But the rate of increase in debts in the 1980's exceeded by far the increase in GNP and the increase in national income, and it was not right. Considering that after a decade of over-expansion, our debts have gradually entered a period of relatively steady increase and we have gradually turned into a mature debtor, we must control the 1980's trend of abnormal increase in the debt scope and turn the situation around. The scope should be more reasonable and the rate of increase should slow down. In the 1990's and even into the first decade of the next century, the upper limit of the debt ratio should not exceed 15 percent; the debt service ratio should not exceed 90 percent; and the debt repayment ratio should be limited to around 10 percent, or at most 15 percent. The rate of debt increase should be less than or equal to the rate of increase in the GNP, and the principal and interest payments should be smaller than or equal to the rate of increase in foreign exchange income. It is estimated that even if China's foreign borrowing should slow from the current 30 percent rate to 6 percent, by the year 2000, China's foreign debt scope will still exceed the \$100 billion mark, making us the fourth largest debtor nation in the world. Thus, we must keep the momentum of debt increase under control as soon as possible to avoid trouble. This is because (a) the relationship between the foreign debt scope and the ability to earn foreign exchange is clearly one of constraint, and the relationship between foreign debt principal and interest payment and the actual ability to earn foreign exchange is even more constraining. Well into the future, so long as there is no radical change in China's trade structure, it will be difficult to maintain a trade surplus on a regular basis. (b) We have limited ability to digest and absorb foreign debts, and our use of foreign loan funds is not economically efficient yet. These to some extent prevent us from increasing our ability to repay foreign debts. (c) The financial management system still needs gradual reform, and the foreign debt regulation mechanisms still need to be further

improved and perfected. For a large developing nation like ours, funds needed for economic construction should come mainly from domestic accumulation. Borrowing foreign funds should still be a supplementary measure. We cannot rely on foreign loans to support the high rate of economic growth and the large construction scope; otherwise haste only makes waste. Theoretically speaking, we should always strive for the best foreign debt scope, but this is only a goal, and when we actually put the foreign loans to use, we want our marginal return to be as close to the marginal cost as possible to maximize the actual return.

#### C. Further Optimize the Mix of Foreign Loan Fund Sources

1. We should strive to obtain more official funds and reduce the proportion of commercial loans. In 1984 preferential loans from official sources made up as much as 45.91 percent of our total debt; it fell to 27.93 percent in 1990. Conversely, commercial loans increased from 54.09 percent to 72.07 percent during the same period. This means China's debt structure has deteriorated; the cost of loans has increased, and the state's burden of principal and interest payment has gotten heavier. This trend should be put under control as soon as possible. We must widen the channel of official fund sources and increase their share in our total capital inflow as much as possible.

2. As for the method of borrowing money overseas, first, the method should help extend the loan period. Where possible, we should borrow more foreign government loans, international financial organization loans, and low-interest intermediate- and long-term commercial bank loans. Second, we should adapt to the trend of dealing more with securities in the international financial market and create the conditions to issue some long-term bonds in large international capital markets like Europe, New York, Frankfurt, Tokyo, and Hong Kong. We should also be fairly selective about when to get into which international financial market. Currently, when China borrows foreign loans or issues bonds, we tend to concentrate in the Asian financial markets and a handful of European markets. This kind of market concentration can make us too dependent on certain markets fails to spread out the risks. Therefore we should strive to diversify the loan markets and actively develop the U.S. and European intermediate- and long-term financial markets. Finally, before we enter a market, we should study various peaks and off seasons for markets, as well as time our entrance into those markets. Concurrently, we should plan and coordinate those who want to raise capital in the international markets and prevent several borrowers from getting into the same market. The state should line up borrowers and allow only one borrower at a time to approach a specific market using designated or pre-planned borrowing method, so that we will not be forced to accept poor loan terms because of the competition among ourselves.

D. Optimize the loan structure, lower loan cost, and reduce risks:

1. A proper debt structure first requires a reasonable term structure. This is because several programs that are good in part may not necessarily produce the best overall result. Without overall coordination, the best loans individual departments can obtain for themselves can still create a peak debt payment period because the loans are due at the same time and there is a concentration of debt payment in the same period. China's current situation indicates that there is indeed a need to centrally manage the loan terms and set the terms of loans and the maximum amount we borrow each year.

2. We should uphold the principle of diversifying the types of currency borrowed. Given that the types of currency borrowed, utilized, and repaid are fairly consistent, we should coordinate the types of currencies we borrow. Exchange rate risks are usually greater than interest rate risks, which makes managing the currencies even more important. Currently there are two main problems in China's currency-mix: One is the lack of currency diversity and the other is the huge discrepancy between the currency-mix of our debts and the currency-mix of foreign exchange we earn. To avoid exchange rate risks, we should adopt the following measures: as much as possible we should arrange the currency-mix of loans according to the types of currency we earn from trade and non-trade sources, so that the changes in exchange rates, interest rates, and international financial market situations are organically linked together; we should properly match up the soft and hard currencies; we should stipulate an inflation-proof clause in the loan contracts; we should utilize various modern financial tools, such as forward foreign exchange buying and selling and currency swap and so on to cut possible losses.

3. We should lower the overall level of interest rates and risks. Since 1988, the average interest rate of China's foreign debts has been climbing steadily. This is directly attributable to the increase in commercial loans and the larger share of variable rate loans. To lower the interest rate level and avoid interest rate risks, we should adopt the following measures to control the surge in variable rates: If the interest disparity is nominal, it will be to our advantage to have equal a proportion of fixed and variable rate loans. Among the variable rate loans, we need to have different basic rates and increase the types of basic rates to reduce the risk of foreign debt. We need to make better predictions of the change in interest rates and exchange rates and take both into consideration when we borrow money. In deciding whether the interest rate of a loan in a specific currency is reasonable, we should also take into consideration the fluctuations in exchange rates. We should utilize interest rate risk management practices common in the international financial markets, such as interest rate swaps, interest rate futures, and forward rate agreements and so on to adjust to the

frequent interest rate changes in the international financial markets and reduce the interest rate risks and foreign debt costs.

E. Maintaining a Proper Input Foreign Loan Fund Structure

The input of foreign loan funds should abide by the following three principles: One, it should give impetus to the nation's economic development. Two, It should help increase our productive capacity. Three, it should ultimately produce a benign cycle for the national economy. Looking at the current situation, we need to work on the following two areas with respect to the direction of our foreign loan fund input:

1. The state should have a central plan regarding the foreign loan funds earmarked for the basic industries and trades that earn foreign exchange and do a good macroeconomic coordination job. Today, we are in the process of changing from the old system to the new, and given that the market mechanisms are still imperfect and the pricing system is still distorted, the input of funds in the basic industries will clearly generate less profit than that put into the processing industry. But from the development point of view, fund input in the basic industries where there are shortages will no doubt be beneficial to the economy's long-term development, and because of the state's inadequate industrial measures, this move is even more important. Since foreign loan funds must be repaid, the state must make macroeconomic arrangements, and so long as there is some guarantee that we can pay off the foreign debts, we must set aside a certain amount of foreign loan funds to keep up the necessary input in the basic industries. Meanwhile the state should also coordinate the input of the limited amount of foreign loan funds into the basic industries and industries that earn foreign exchange, so as to increase the state's ability to earn foreign exchange and guarantee that more of the foreign loan funds will be put into the weak links in the national economy in the future.

2. We should make a distinction between the different borrowers and adopt different foreign debt input policies. The government's loans are guaranteed by its foreign exchange income, and therefore it should consider putting the funds into some capital projects which do not generate obvious short-term benefits or earn foreign exchange. The financial institutions and enterprises, on the other hand, must pay more attention to the short-term benefits and foreign debt repayment, and so the state should formulate policies to encourage them to put their money into industries that export and earn foreign exchange. With the growing classes of borrowers, the government should formulate different types of foreign loan input policies to target debtors of different classes and draw a rational policy line between different entities. At the same time, the state should also gradually refrain from acting as guarantor or assuming responsibility for the debts.

F. Set up a foreign debt repayment fund and define who is responsible for repaying the foreign loans and set a foreign debt repayment quota.

In order to radically change the situation where many are eager to borrow money but few are willing to repay the debts, in order to curb the excess increase in foreign loan demand, and in order to make the borrower responsible for the repayment, mold a mechanism for making emergency foreign exchange and foreign debt payments, and increase our reserved ability to pay off our debts, it is necessary to set up a fairly substantial foreign debt payment fund. Today, more than a dozen provinces and municipalities have set up debt repayment funds whose main purpose is to pay off foreign debts. They have further identified who is responsible for debt payment and ascertained the sources of funds used to repay debts and have played an important role in maintaining the state and localities' credibility. To further implement the principle of whoever took out the loans is responsible for their repayment, the central authorities should demand that the localities, departments, and enterprises know what they are doing when they borrow foreign loans on their own. Before they borrow any money, they should formulate a repayment program and make sure that they have the foreign exchange source to repay the money. To ensure a smooth repayment process, besides continuing to perfect the local debt repayment fund management system, the state should also step up the creation of a central debt payment fund, so that we will have a state foreign debt repayment fund as well as a local fund system soon. The state fund can be fashioned after the International Monetary Fund's special withdrawal rights, or the state can allocate part of its existing foreign exchange reserve as the central debt repayment fund. The central government and the localities can also consider taking out a fixed percentage of the debtor units' or enterprises' foreign exchange retention to create a debt repayment fund. As the funds continue to grow, we can gradually manage all foreign debt payments through them. At the same time, both central and local funds can also consider issuing stocks and foreign exchange bonds, or they can capitalized part of the loans that can be capitalized, and if necessary and given the opportunities and the right conditions, they can also consider borrowing new loans once a year to repay some old debts.

G. We should perfect the foreign debt statistics, information, and monitoring systems and track the latest foreign debt developments in a timely fashion. Statistics, information, and monitoring are the most important part of foreign debt management. In September 1987, MOFERT and the State Statistical Bureau jointly formulated the "Foreign Capital Utilization Statistical System," and in 1988, the State Information Center formally launched a pilot project entitled "International Payment Data Bank" in Guangdong, Fujian and other provinces and municipalities. In November 1989, People's Bank of China announced the "Detailed Rules on Foreign Debt Registration." These are indications that China has put its foreign debt statistics, information, and

monitoring work on a standardized track. Many nations that are mired in debt crises made the mistake of not having an effective foreign debt statistics and monitoring system. For example, in the 1950's and 1960's, Ghana's and Indonesia's debt crises were due almost entirely to their lack of information pertaining to loan size and principal and interest payment. Romania, Sudan, and Zaire's current problems are due partly to the lack of data which produced high cost and ruinous loans. Today, China needs to restructure or readjust its statistics, information, and monitoring systems. (a) With regard to the management system, the state's Foreign Debt Management Commission should be responsible for the administrative tasks, such as setting up and perfecting the entire system, classifying the data, collecting information, setting up the norms for monitoring, and forecasting and analyzing and studying the foreign debt scope and structure, etc. (b) With regard to the operational aspects, we should implement a foreign debt registration and account management system. Its entire scope, including direct and indirect foreign loans, loans borrowed by institutions at home or by institutions abroad, and direct foreign investments or redirected loans at home, should be put in plain view of the state's foreign debt statistics and monitoring system. (c) With regard to the monitoring measures, we should make use of computerized data processing and networking and promptly and accurately complete a nationwide data gathering task. (d) We should set up and perfect a system for assessing the foreign debt statistics, information, and monitoring systems.

## INDUSTRY

### Opening Up Foreign Machinery, Electronics Markets

#### Malaysia Market Examined

93CE0263A Beijing ZHONGGUO JIDIAN BAO  
in Chinese 24 Nov 92 p 3

[Article by Li Baosheng (2621 5508 3932), Zhang Xiaolin (1728 2400 2651), Zhou Jingming (0719 0079 2494), and Gao Xiaoxing (7559 2556 2502): "How Can the Malaysian Market Be Opened Up?"]

[Text] As Malaysia's machinery and electronics industry is very unevenly developed, being still rather backward overall in that basic equipment needed for the development of Malaysia's national economy in particular must be imported, China should make it a priority to export capital goods to Malaysia now and for some time to come. This would include goods such as power machinery, farm machinery, rubber industry machinery, all types of machine tools, key manufacturing machinery, power equipment, scientific instruments, small complete sets of equipment, and hardware tools.

In addition to capital goods, as Malaysia has competitive industries and has opened up to imports, we can also watch for opportunities to break into the Malaysian

market for certain consumer products, primarily such areas as tools, tableware, household appliances (washing and sewing machines), tape recorders, bicycles, clocks and watches, and cameras. China's current competitive advantages in these products would be mainly in low-grade items, where we could succeed through good quality at low price.

In light of Malaysian conditions, there is not much possibility of Malaysia importing certain products from us in the near future. For instance, as to motorcycles, all of Japan's major manufacturers have their own exclusive dealers in Malaysia, which are well-heelled, under Japanese control, and will sell only Japanese products. So Chinese imports would not be sold by these dealers, and alternative dealers would be basically unable to compete with them. These products include hot-selling consumer goods, such as small cars, motorcycles, air conditioners, TV's, refrigerators, washing machines, and VCR's.

Chinese export enterprises and groups should emphasize the following tasks:

#### **1. Select Suitable Sales Channels, Flexible Dealership Forms**

A. Choosing dealers actively and carefully will be the major way at present to break Chinese electronics products into the Malaysian market. Modern sales management demands conscientious and practical pre-, mid-, and post-sales product service. Without maintenance services and term guarantees, it is hard to make deals or break into markets. Choosing the right dealer is the first step to success. If Chinese companies compete with each other, even to the extent of commissioning more than one dealership through different companies for the same product from the same factory, this would lead to market chaos. This would severely shake the operating confidence of dealers, and infringe on the interests of exclusive Chinese dealerships of many years standing.

B. We should take an active part in competitive bidding. Many of Malaysia's major equipment purchases are conducted through bidding, which involves sharp competition over services, funds, technologies, and deadlines, in which winning bidders who do not fulfil contract terms are blacklisted and eliminated from future bidding. This means that we must conscientiously select Chinese companies with domestic might and overseas knowledge and experience to participate in such bidding actively and safely.

C. We should pay attention to entrepot trade, which is the form of much current PRC-Malaysian trade through Hong Kong and Singapore.

D. We need to make use of brand-name trademarks that are universally recognized by consumers. As Malaysia is a "brand-name merchandise" market, many Malaysian merchants suggest that consumer products had best have OEM cooperation. We should use trademarks that are recognized on markets, instead of the original Chinese trademarks. As to capital goods, China has imported

much technology from developed countries in recent years, so it is better if we use imported trademarks based on cooperative production when exporting such goods.

#### **2. Deeper Levels, Expanded Ranges of Cooperation**

Once we have begun to break into the Malaysian market, we should consider gradually deepening our levels of cooperation, which will help us to keep the markets that we have already acquired, as well as to further expand into a broader range of new markets. This was the successful experience of others, such as Japan, Korea, and Taiwan. We could consider the following forms of cooperation with Malaysian manufacturers:

A. Joint production. While one reason for this is that once export volume grows, producing where the market is helps to lower production costs and expand business, a more important one is that the Malaysian government encourages CKD-type imports.

B. Joint-venture factories with equipment as capital. Malaysia has drawn up quite preferential laws and regulations to attract foreign investment. The government allows imports of machinery and equipment, giving even more encouragement to imports of capital and technology (particularly high-tech) through joint ventures, but encouraging export and restricting domestic sale of the products.

C. Expanded technology exports to spur corresponding machinery and equipment exports. Malaysia's Minister of Industrial S&T Environment says that Malaysia's current priority is development of applied technology, i.e., capital-intensive and high-tech industries.

#### **3. Guarantee Post-Sales Service, Parts Supplies**

We need to make long-range plans to emphasize the post-sales service and parts supplies links along with product sales promotion.

#### **4. Improve Product Quality**

While the Malaysian market is limited in capacity, it is sharply competitive, using the relevant British standards, laws and regulations, and rules, which make more rigorous demands on electronics goods quality. Meanwhile, the PRC's major competitors in the Malaysian market are Japan, the U.S., Germany, France, Italy, Taiwan Province, and South Korea. As products from these places have established strong reputations and gained quite large market shares, expanding China's product markets under such sharp competition without improving quality would certainly be difficult.

#### **5. Constantly Develop New Product Markets**

As China's current products in the Malaysian market are quite limited in variety and quantity, we still have much potential for expanding markets. Moreover, there are still openings waiting to be developed in many other product fields, particularly certain complete production lines and high-tech and heavy industrial goods.

## 6. Understand Local Policies

Most of Malaysia's manufacturing industries are in areas such as processing, assembly, textiles, electronic components, and food; Malaysia is very weak in heavy industry and machinebuilding. The government is promoting the development of downstream industries, particularly value added production through processing and finished product manufacture utilizing Malaysia's rich supply of raw materials, such as rubber, palm oil, lumber, and petroleum. While Malaysia has developed rapidly, its infrastructures are less developed, so that it is now accelerating its building of roads, airports, docks, power supplies, and communications facilities. It is estimated that by the end of 1992, it will have water supplies to 77 percent of its rural population and power supplies to 84 percent of its population. So understanding Malaysia's economic development directions and current policies will be of great significance in consolidating and expanding markets.

## 7. Accelerate Subscription to Standards

Malaysia permits market sales of almost 30 household appliances and some electronics products only after they pass the standards tests of its Industrial Standards Bureau. IEC and BS standards are in widespread use. As to products that conform to UL, JIS, DIN, and other advanced nation standards, the Industrial Standards Bureau allows them onto markets only with certification that they have met these standards organizations' approval. Chinese organs, such as the departments in charge of our machine building and electronics industry at all levels, the relevant State Council departments, the Machinery and Electronics Import-Export Council, and the Machinery and Electronics Trade Promotion Council, should provide good service to export enterprises to help them meet these standards, as well as focusing on the following tasks:

- A. Substituting exports for imports to expand exports;
- B. Doing a good job of foreign trade coordination, management, oversight, and inspection;
- C. Enhancing classified management and overall coordination of trade exhibitions.

### Open Vietnam Market

93CE0263B Beijing ZHONGGUO JIDIAN BAO  
in Chinese 4 Dec 92 p 3

[Article: "Chinese Opportunities for Breaking Into the Vietnamese Machinery and Electronics Market"]

[Text] The major current and future Vietnamese market demands for better products are mainly as follows:

1. Farm machinery and agricultural product processing equipment. Having instituted the household responsibility system of linking remuneration to output in its rural areas, Vietnam has a need for hand tractors, water pumps, and small hydropower stations (in mountainous

areas). Every village needs a small rice mill. In 1989 Vietnam imported from Sichuan through Hong Kong five pork processors of quite good quality.

2. Electronics goods and electrical appliances. As North Vietnam has more power supply than demand, with many North Vietnamese villages having electricity, the demand for electronics goods there is growing rapidly. Vietnamese consumers prefer Chinese and Japanese TV's and electric fans. While they used to buy Soviet refrigerators, they are now buying Japanese and some Chinese products. Vietnamese consumers consider Japanese and Chinese merchandise to be fairly good, Soviet goods to be slightly inferior.

3. Mechanical equipment. Vietnam has many factories with outdated equipment and low-grade hotels that need refurbishing. It needs both complete sets of mechanical equipment and mining-use motor vehicles. In 1992 the Vietnamese Government permitted import of 5,000 new motor vehicles and 10,000 motorcycles. It has already imported 500,000 lubricating/fueling machines from China's Changkong Machinery Plant. The Vietnamese real estate industry is growing rapidly, meaning that there is a great demand for building materials, such as cement and steel. Meanwhile, Vietnam is planning to build several small cement plants. The nitrogen fertilizer plant on its northern border that China originally helped to build needed technological upgrading and lacked spare parts which, once provided by China, doubled its annual output.

While the Vietnamese market has widespread demand and great potential, it also is very competitive. Goods from Japan, South Korea, Taiwan Province, Hong Kong, Singapore, West Europe, and the former Soviet Union are all competing for market share. As Mainland Chinese products entered the Vietnamese market late, particularly in the last dozen years when Vietnamese consumers had no chance to come into contact with Chinese products, we need to give Vietnamese consumers time to get acquainted with Chinese products.

As most foreign products on the Vietnamese market come from large companies in developed countries, China should compete with them with products from well-matched large factories. It will not do to simply maintain our current border trade, so we need to take a little longer view.

As Vietnam is short on foreign exchange, we should make use of flexible trade forms, such as cash, barter, and compensation trade, which is the only way that we will be able to adapt to Vietnam's realities and stimulate trade.

### Adapting Australian Methods

93CE0263C Beijing GUOJI SHANGBAO in Chinese  
1 Dec 92 p 3

[Article by Cai Wenju (2088 2429 5282) and Fang Ti (2455 7555): "On Expanding Machinery and Electronics Exports to Australia by Adapting to Australian Market Peculiarities"]

[Text] Australia is one of the world's trade superpowers, with a trade turnover for the 1991-1992 fiscal year of more than A\$100 billion [Australian dollars] (A\$55 billion in exports and A\$51 billion in imports). Australia's major trading partners in declining order are the United States, Japan, Britain, Germany, New Zealand, Taiwan Province, and Mainland China.

Australia has always emphasized trade, with its major exports being agricultural, livestock, and mineral raw materials and primary products that everyone knows well, such as fleece, wheat, beef and mutton, coal, and iron-ore, which account for 70-80 percent of its annual export volume. About 80 percent of Australia's imports are manufactured goods, mostly machinery and electronics products, such as motor vehicles, office automation equipment, industrial, mining, and farm machinery, and communications equipment. Australia is a major importer of machinery and electronics products, with a very extensive market that has imported about A\$20 billion worth of machinery and electronics products a year since 1987. These Australian import features have made developed countries, such as the U.S., Japan, Germany, and Britain, Australia's major sources of imports.

China's major exports to Australia remain handmade tools, simple machinery, instruments, machine tools, water pumps, electrical machinery, ships, paddle-wheel equipment, communications equipment, electronic components and devices, motor vehicle parts, and machine parts, as well as certain large machines, such as power hoists, trucks, ball mills, crushers, and bulldozers. China's exports to Australia have grown yearly from \$8.31 million in 1987, \$13.91 million in 1988, \$23.63 million in 1989, and \$26.86 million in 1990 to \$15.72 million for the first half of 1991. Despite this, China's machinery and electronics exports to Australia make up less than 0.2 percent of Australia's annual machinery and electronics imports of A\$20 billion. As China has greatly improved the technical level of our machinery and electronics products, we have good prospects for expanding our machinery and electronics exports to Australia.

#### **I. Thoroughly Understand Australia's Market Peculiarities, Take Corresponding Steps To Open Up Australian Markets.**

1. While Australia's machinery and electronics market has a large import value of about A\$20 billion a year, these machinery and electronics products go to decentralized operations in small batch quantities. So in order to adapt to Australia's market peculiarities, we need to take small-lot orders.

2. While Australia makes high demands on imported machinery and electronics product quality, its own level and capabilities as regards domestic machinery and electronics production are not high, so that Australia has always imported brand-name products from developed countries. As certain Chinese machinery and electronics

product parts are not much different in quality from brand-name products, better publicity and stable goods supplies will lead to acceptance of our parts, with certain small machinery and electronics products, such as small water pumps and electrical machinery, being even more likely to be welcomed on Australian markets because of their good quality and cheap price. Certain large machines that China produces through dependence on foreign brand-name product licenses and with imported parts can also be sold on Australian markets. As not many of our domestic large machinery and precision instruments are now entering the Australian market, we need to work hard in many areas to break in.

3. Australian machinery and electronics product markets demand good post-sales service. China's previous small volume of machinery and electronics products exported to Australia has meant that we did not pay much attention to post-sales service. But as our machinery and electronics exports to Australia increase, this matter will obviously become increasingly important. While China's exports to Australia of machinery and electronics products are still small, with decentralized sales and a not very realistic establishment of maintenance centers in Australia, we can still make use of the following methods to enhance our post-sales service: a) We can search out dealers, provide them with parts, and make them responsible for maintenance; b) We can attach spares for certain easily-damaged parts to our machinery exports; c) When receiving customer demands for parts for certain occasional exports to which spares cannot be attached, we must deal with these demands promptly and help to solve problems as quickly as possible.

4. Australia's gaps in the production of mining equipment and heavy machinery will contribute to increased Chinese exports. As Australia's manufacturing industry now only provides certain maintenance services and assembles foreign components in the mining and heavy machinery industries, but has no machine manufacturing plants there, Australia imports large quantities of such equipment every year. This means that as long as our machinery and electronics sector works together, with foreign and domestic coordination and improved product quality, it will be entirely possible for us to expand our exports to Australia of products such as mining equipment, heavy machinery, and large and mid-size machine tools. China has long had a trade deficit with Australia, importing from Australia every year large amounts of iron-ore, and nonferrous metals (aluminum and copper). In addition, there are Chinese-Australian cooperative operations, such as the mining projects in Qiana and with the China Metallurgical Import and Export Corporation in Perth in Western Australia, and the goldmines with Chinese investment in Queensland. While we could take advantage of these conditions for export-oriented imports of some machinery and electronics products, none of these projects have yet used Chinese machinery and electronics products.

## II. Deal Well With Several Conflicts in Machinery and Electronics Exports

1. The conflict between imported and domestic products. As the Australian market generally has blind faith in world-famous, brand-name products, it is very hard for certain new trademarks, regardless of quality, to break into the Australian market. While Chinese machinery exports to Australia that are produced with world-famous, brand-name product licenses and mostly imported parts are more readily accepted on the Australian market, as stated above, such products are not price competitive. And while Chinese domestic products are cheap in price, it is hard for them to win acceptance on the Australian market. The only ways to resolve this conflict are to sharply improve the quality of and enhance the publicity about Chinese machinery and electronics products.

2. The conflict between China's internal goods sources and exports. While the value of the Australian market's imports is high, its capacity and batch quantity are not great. China does not now have factories that specialize in producing machinery or other products for export Australia. We basically export whatever is available domestically and sell whatever is leftover, which makes it impossible to organize our production to suit Australian market demands. It often occurs that the Australian market demands precisely the machinery and electronics products that are in short domestic supply. For instance, in 1987 the Australian market needed trucks, ordering 150 from us, of which we were able to supply less than 120 despite all of our efforts. And Australian firms have been unable to place orders with us for certain products because we could not make the changes in standards and specifications that they required.

3. The lack of coordination between Chinese and Australian import-export sectors. While China imports large amounts of iron-ore from Australia every year, Australian mines rarely import our mining equipment. And while China imports large amounts of wheat from Australia every year, Australia does not import Chinese farm machinery. Meanwhile, when exporting wheat to the former Soviet Union, Australia spent A\$1 million to buy 39 Soviet-made tractors and 12 four-wheel-drive vehicles from the former Soviet Union for sale on the Australian market, in exchange for wheat purchases by the former Soviet Union.

## III. Solve Several Longstanding Problems To Increase Machinery, Electronics Exports

1. We need to enhance our export merchandise inspections, in order to improve our product quality and technological level, so that we can export more machinery and electronics products to Australia. In light of China's current machinery and electronics product manufacturing conditions, while it will be hard for many of our products in the short term to meet the quality standards of certain world-famous, brand-name products, if we pay attention to enhancing our inspections and improving our product quality and technological

level, it will be entirely possible for us to compete with Korea, Taiwan Province, and Asia's third-world countries.

2. We need to pay attention to delivering goods on time, in order to enhance our customers' confidence in us. As Australian firms do not now generally order in large lots, they are often not noticed by our production units, so that we usually do not plan corresponding production in a timely fashion.

3. We should vigorously support certain companies that specialize in producing and exporting machinery and electronics products that are in line with foreign market demand. While China operates seven or eight machinery and electronics product companies in Australia, they deal mainly in small machinery and hardware, with only two or three dealing in large and mid-size machinery. And even these operate as small but complete, with a very small percentage of their turnover being large and mid-size machinery.

### Problems With France

93CE0263D Beijing GUOJI SHANGBAO in Chinese  
29 Dec 92 p 3

[Article by Nie Ziwei (5119 5261 5898) and Qu Wen (2575 2429): "Problems With Chinese Machinery and Electronics Exports to France"]

[Text] Chinese exports of machinery, electronics products, and instruments to France have grown considerably in the last two years. French statistics for 1990 show that Chinese exports to France of machinery, electronics products, and instruments amounted to about 1.8 billion francs, or 15 percent of all (Chinese) exports to France, which figure had grown to 2.7 billion francs by 1991, or 15.9 percent.

Chinese exports to France of machinery, electronics products, and instruments are still mainly low-tech, primary, and ordinary machinery and electronics products, including universal products, such as chains, sprockets, and bearings, and electrical products, such as insulating materials, power machinery, mica, machine tools (low-grade), cutting and measuring tools, and instruments and meters. While some of these products have reached a certain technical level in recent years, they remain low-grade. As some higher-tech products, such as numerical control machine tools, are at least 20 percent higher in price than similar products in their class, we still need to further optimize our product mix, raise our product grades, and lower our product costs. Chinese exports to France of machinery, electronics products, and instruments are still troubled mainly by the following problems:

1. Quality. Disputes over quality occasionally lead to cases of claim damages. For instance, three of the four microscope prototypes ordered by a French laboratory instrument firm from a Chinese optical instruments manufacturer were found to be substandard. The foreign

firm noted that such problems with "prototype" orders would mean even more quality problems with lot orders. The French Ayiseille Company ordered 1,800 wheelbarrows from China, of which only the first batch of 600 was basically up to standard, with the second batch having to be remanufactured in France (for which the Chinese paid), and the third batch being completely cancelled, which had a severe impact. Some quality problems are due certainly not to technology or equipment problems, but rather to poor quality concepts and not strict enough control. This creates not only direct economic losses, but even more immeasurable indirect ones, such as loss of reputation, broken business relations, and even lost markets.

2. A lack of corresponding technologies, and incomplete related services. As machinery and electronics products are long-life goods, with some, such as machine tools, power machinery, and household appliances, being durable consumer goods, such commodity exports require correspondingly complete technical services, i.e., both pre- and post-sales service, in order to essentially relieve the concerns of importers and consumers. But only a very few Chinese exports to France provide this, with most products basically having no post-sales service at all.

3. An emphasis on samples to the neglect of lot deliveries. Machinery and electronics exports have a long cycle from first customer contacts to trial orders and finally to lot orders. As new customers are unfamiliar with Chinese products, they need to test out and make sure that samples are up to standard before making trial orders. While Chinese factories are usually very conscientious when making samples, which easily pass tests, they often have problems with large-lot deliveries. For instance, a Chinese factory signed a contract with France for 15 T-pump casings, in which the customer was very satisfied with each of the three increasingly-improved delivered samples, so first ordered one shipping container of them, with plans to order 10 more later. But when the first container arrived, it was found that 90 percent of the goods were rejects, which disappointed the customer so much that it not only demanded claim damages, but also cancelled the later order.

4. Domestic Chinese companies vie to undersell each other and export more, lacking the essential coordination and management organization. Domestic companies vie to undersell each other, in order to export more, quoting each price lower than the last to the same customer. Some French customers wait for the best opportunity to buy a particular product, requesting price summaries from various Chinese companies. In the end, the multitude of exporters and the lack of uniform price controls pose many difficulties for Chinese exports and creates huge economic losses. In addition, there are widespread problems, such as not making prompt replies to price inquiries by foreign firms, making hasty replies, simply ignoring inquiries, providing the wrong packaging, and not preventing shipping damage.

Unless these problems are solved, they will have a sharp impact on the competitiveness of Chinese exports. Once the EC uniform market is formed, the larger market will bring increased commodity production and exchange, a more rational overall disposition of industries and resources, and bright prospects for new products. This will be both an opportunity and a challenge for China. As the uniform market will provide favorable conditions for Chinese machinery, electronics, and instruments exports, our key task will be to choose the right place in this order for Chinese products. In order to adapt to the EC uniform market, we must change our economic development strategy, by enhancing our own economic strengths, so that we can better suit Chinese machinery, electronics products, and instruments to international market demands.

## FOREIGN TRADE, INVESTMENT

### Shenzhen Superhighway Construction Urgent Task

93CE0234A Shenzhen SHENZHEN TEQU BAO  
in Chinese 3 Dec 92 p 1

[Article by Wang Zhenbu (3769 2182 4716): "Acceleration of Superhighway Construction Is Urgent Task"]

[Text] On the morning of 1 December, after Li Hao [2621 3493], city party committee secretary, Li Youwei [0632 2589 3634], mayor, Wang Zhongfu [3769 5883 1318], standing committee member and vice mayor, and Li Chuanfang [2621 0278 5634], vice mayor, heard the plan for constructing a superhighway system for the city and a report on the situation in the construction of this system, they concluded that the acceleration of the construction of our city's superhighway system project to alleviate the contradiction of congested road traffic in our city is an urgent task.

The city's superhighway system project is the largest construction project in Shenzhen's history. With an estimated investment of more than 10 billion yuan, it will take three years to complete. Its total length will be about 100 kilometers. The entire superhighway system will be composed of the two main trunk lines—the northern beltway and the southern beltway—and six connected south-north trunk lines. All the roads will be six- or eight-lane roads, and will either be expanded or newly built. There will be 37 overpasses and nearly 100 overhead pedestrian bridges or pedestrian tunnels. After the project is completed, in the transit traffic and the inner-city traffic, with trucks and buses moving in separate lanes, motor vehicles can be driven as fast as 80 kph, thereby greatly shortening the time for driving vehicles from east to west, and vice versa, in the special economic zone. By alleviating the current strained situation in our city's road traffic, the climate for investment and the environment for people's lives will be further improved, thereby being of important significance for promoting Shenzhen's second decade of economic boom.

Li Hao pointed out that, with the Shenzhen Special Economic Zone (SEZ) now being expanded, and with the changes occurring in the city's position and functions, we must ask more experts, both Chinese and foreign, to focus on the zone, think of new methods, and, in line with the new situation, perfect in a timely manner our city's capital construction. For the city's plans and construction, there must certainly be consciousness leading, and we must as fast as possible alleviate the strained situation in our city's road traffic. Besides strengthening the control of road traffic, we must ensure both quality and quantity, and strive to complete soon the city's superhighway system project.

Li Youwei pointed out that the quality of a city's road traffic is directly related to the development of the city and to the city's environment and its people's lives. The strained situation in our city's traffic has already become a major contradiction. If we do not accelerate the planned construction of the superhighway, then our city's traffic could be in danger of being paralyzed. The construction of the city's superhighway system is extremely important, and is the key point and center of gravity of our city's urban construction. Therefore, we certainly must concentrate the forces of all circles; and everybody must "tighten the rope" and complete this project with scientific construction organization and methods, high standards, high quality, and high speed. Mayor Li emphatically pointed out that the funds for construction of this project are to be raised as fast as possible by the planning department, and we cannot let the question of funds adversely affect the project's rate of progress. With regard to the problem of price rises for, and shortages of, raw materials, we must open up channels as fast as possible. Imported materials must be directly used for this key project, and there must not be any intermediary circulation links. There must be careful calculation and strict accounting of the construction funds, and, under the premise of ensuring the project's quality, as much as possible economize on investment. In the course of construction, we must get a good grip on the key positions; e.g., the complex overpasses must be completed ahead of schedule. We must handle well the relationships between construction and traffic, between people's lives and the urban environment; and we cannot, because of the traffic jams caused by the construction, adversely affect the urban environment and their lives. In conclusion, Mayor Li said that Comrade Wang Zhongfu, standing committee member and vice mayor, is the commander-in-chief of the construction project's general headquarters, and that comrade Li Chuanfang, vice mayor, is the deputy commander-in-chief, and that the general headquarters must enhance its leadership and coordinate its work.

Li Chuanfang said that the city's superhighway construction project is of great significance. Time is short and the task is heavy, and all units must be highly determined to complete the task with high quality and high speed. They must now grasp the "golden season" for construction and put in extra shifts and hours. They must ensure that

the greater part of the earthwork and stonework project on the northern beltway before next year's rainy season. Preparations for starting and completing the work must begin immediately, and by the end of next year the beltway project must be completed on schedule, thereby setting "a new speed record for Shenzhen" in the city's history of project construction.

Mayoral assistant Sun Zhen [1327 4394] and the leaders of the city's Construction Bureau, Program and Territory Bureau, Planning Bureau, Financial Bureau, and other units attended the meeting.

### **Shenzhen Securities Exchange Symposium on Strategy**

93CE0234B Shenzhen SHENZHEN TEQU BAO  
in Chinese 2 Dec 92 p 1

[Dispatch by reporter Chuan Jianguo (0278 1696 0948): "Experts From Over 10 Countries and Regions Gather in Shenzhen To Discuss Direction of Development of Special Economic Zone's Stock Market"]

[Text] The opening ceremony of the "international symposium on the development of Shenzhen's stock market—92 China—Stock Exchange Week," sponsored by the Shenzhen Stock Exchange, was held at the Fulinda Public House yesterday.

The purpose of this symposium is to invite experts and scholars in China and abroad of economic, financial, and enterprise circles to explain the future direction of development of the special economic zone's stock market. Experts and scholars from more than 10 countries and regions—including the governors and deputy governors of America's Midwest Stock Exchange, Hong Kong Joint Exchange, Singapore Stock Exchange, Korean Stock Exchange, Jakarta Stock Exchange, and India's OTC Exchange—are taking part in the symposium. Zhang Hongyi [1728 7703 5030], vice mayor of Shenzhen City, attended yesterday's opening ceremony.

Those attending the symposium gave briefings on the operating modes and the experiences and lessons of the stock exchanges in these countries and regions, and pinned their hopes on the development of Shenzhen's Stock Market and Stock Exchange.

After Yu Guogang [4416 0948 0474], deputy governor of the Shenzhen Stock Exchange, briefed the symposium on the situation in the Shenzhen Stock Exchange, he said that the exchange is now doing "two pieces of work in foreign lands" geared to domestic needs: after getting approval, the stocks of companies in the interior that meet the conditions can be put on the Shenzhen Stock Exchange; after getting approval, stock companies in the interior that meet the conditions can become members of the Shenzhen Stock Exchange. We hope, he added, after several years of hard work, to make the Shenzhen Stock Exchange the center for stock transactions in southern China. To attain this goal, the development of the Shenzhen Stock Exchange must be geared both to

domestic needs and to needs outside China's borders. With regard to being geared to domestic needs, we are striving by the end of this century to put a little over 100 stocks and several dozen kinds of bonds on the Shenzhen Stock Exchange; with regard to being geared to needs outside China's borders, we are striving to put several dozen B stocks and funds on the market.

In his speech Wang Xiyi [3769 0823 5030], president of the Shenzhen Special Economic Zone's branch of the People's Bank of China, said that the Shenzhen Stock Market occupies a quite important position in the special economic zone's business. In line with the requirements for Shenzhen's economic and financial development, a task of top priority is, while reforming the indirect fund-blending management system, to expand the proportion of direct fund-blending. We will stress the development of the stock market, foreign exchange transaction market, and financial futures market; and we will continue to perfect the capital short-term loan market, foreign exchange adjustment market, and insurance market; and we will establish a gold market and a commercial bills market. The expansion, development, and perfection of these markets must be done with the expansion of the stock market acting as the "faucet." We must increase the variety of stocks, expand the market's scale, and establish and perfect the market's intermediary service organizations, so that the entire special economic zone's financial markets both become the local and even the national places for enterprises and individuals to raise and invest money, and become the bridge for financial cooperation between Shenzhen and Hong Kong and the link for economic exchange between China and abroad.

## TRANSPORTATION

**Machine Ministry on Railway Transport Problems**  
93CE0264B Beijing ZHONGGUO JIDIAN BAO  
in Chinese 27 Dec 92 p 3

[Article by Hu Haiqin (5170 3189 3084) and Huang Xian (7806 2009) of Production Department, Ministry of Machine-Building and Electronics Industry: "Analysis of Railway Transport of Machinery Products"]

[Text] **Machine-Building Industry Production, Product Delivery**

After two years of low output and one year of revitalization of production, the machine-building industry embarked on a fast-growth track in 1992. Meanwhile, a relatively big increase is noted in the demands for machinery and electric equipment by state-supported key departments of agriculture, communications, energy, and the raw materials industries. This is a development in conformity with the orientation of major state investment.

With the fast development of the machine-building industry, the problem of transportation has become

more striking than ever. Currently, Liaoning Province is in urgent need of 3,929 railway cars to transport its 1.6 billion yuan worth of products to the south. An investigation of eight large backbone enterprises reveals that they submitted to the railway authorities a transportation plan requiring 11,501 freight cars for the period January to October 1992 and obtained approval for 7,874 cars. Actually, however, only 5,518 cars were allocated to them. This means that a very low percentage of what had been approved was realized. As raw materials and energy-generating materials cannot be delivered to the enterprises on time, the state has to cancel some of the mandatory targets in its material distribution program. Under such circumstances, the enterprises have been compelled to deplete their stocks of those materials, thus landing in a difficult situation. Moreover, with the rapid development of the national economy, our country has a fast-growing need for large machinery and high capacity electric equipment requiring low energy and material consumption, and of high efficiency. Accordingly, the machine-building industry has aimed at large size in developing electric, metallurgical, chemical, mining, and power transmission and transformation equipment. Now, the equipment supplied by the machine-building industry has far exceeded the past in quantity, size, and weight. Nevertheless, because of the very limited number of special railway cars available for carrying oversized equipment and the restrictions caused by the load-bearing capacities of railways and railway bridges, transportation of large equipment has always been a problem.

The above brings out a fact: The development of the national economy has led to the improvement of production of the machine-building industry and, at the same time, put the transportation problem to the fore. Due to insufficient railway transportation capacity, large quantities of products have been piled up and become new stocks. Enterprises cannot promptly collect payment for the goods they have sold, thus tying up more working funds. Under these circumstances, they have to depend on loans to maintain their production, and the result is that some of their profit has to be used to pay bank interest. The problem that products cannot be delivered has affected the productive operations of enterprises and seriously restricted their reproduction capacity. In addition, the transportation problem is one of the chief reasons that some enterprises are unable to deliver their goods according to the schedule specified in the contracts. It has seriously affected a number of export transactions and marred the reasonable periods for the completion of some key state construction projects.

### Railway Transportation at Present

Now, China has only 52,000 km of railways, equivalent to what the United States had 120 years ago. In our country, railways undertake 56.6 percent of passenger transportation and 70.6 percent of cargo transportation. Long ago, the transportation volumes reached their saturation points on all trunk lines. Now, about 100 trains on these lines are held up daily and cannot run on

time. Everyday trains are overloaded with passengers and carry maximum volumes of freight. Nationwide, 125,000 cars are now needed daily to carry freight, but actually the maximum number of cars available is 75,000, fulfilling only 60 percent of the requirements. There are 12 railway bureaus in our country, but they have more than 20 "bottleneck" areas. In these areas, at most, only 54 percent of the transportation requirements can be met; sometimes the actual transportation volume is as low as 29 percent of requirements. There are only 320,000 railway cars in the entire country. New cars are built every year, but they cannot catch up with the ever-growing transportation requirements. Even though the turnover time of cars has been shortened to 4.1 days, the transportation problem has not been alleviated. As to special cars for carrying oversize equipment, there are only 270 such cars that can be put to normal use. In sum, the limited number of cars cannot meet the ever-growing needs of the national economy. Plus, the aging of railways and railway bridges has reduced their load-bearing capacities and limited train speed, and because of this, transportation of large equipment is restricted. As can be seen, our railway development has lagged behind the growth of other economic sectors to such a serious extent that it has become a "bottleneck" in the development of the national economy.

The increasingly serious transportation problem has aroused the attention of government departments at all levels. During the Eighth Five-Year Plan period, the gross national product may grow at an annual rate of eight to 10 percent. Whether we can achieve this goal and bring our national economy to a new stage depends on success or failure in tackling the "bottleneck" of railway transportation. The State Council has placed railway development high on its agenda and decided to implement special railway construction policies and put more money into this field. Long-range and short-term measures have been set forth in a bid to change as soon as possible the negative condition of railway transportation. With regard to short-term measures, all railway departments are now actively tapping potentials and working on those medium and small projects that can be put into operation in a short time and are capable of yielding quick economic returns. Present plans include building 30,000 new railway cars each year to solve the acute shortage of cars, raising the load-carrying capacity of trains, and remodeling railway station facilities with the aim of escalating the current transportation capacity by roughly 15 percent. New technology will be adopted to boost the railway capacity, and efforts will be made to strengthen the organization and management of transportation work. As for screening and approving requests for freight cars, the railway departments have put forward a material-handling principle of "putting central organs above local departments, tasks within the plan above tasks not included in the plan, and key tasks above ordinary tasks." They have also adjusted some of their functional units. As regards long-range projects, they plan to turn 4,100 km of single-track lines into double-track line, electrify 5,600 km of lines, and build 6,600 km

of new railways during the Eighth Five-Year Plan period. By the end of the Ninth Five-Year Plan period, it is expected that the nation will have 70,000 km of railways and will march toward the goal of building a 100,000-km railway network. Now, all projects that have been started, including construction of new railways as well as double-tracking and electrification projects, are proceeding at an accelerated pace. The scheduled dates of completion of these projects have also been advanced accordingly.

On the whole, development of railway transportation will make great headway. However, construction of railways, an infrastructure of the national economy, requires a large investment, takes a long time, and is slow in producing results. A newly completed railway can hardly have any effect on boosting the transportation capacity within three or five years. For this reason, the problem of inadequate railway transportation capacity, which cannot meet the needs of national economic development, will not be improved significantly within a short period.

#### Measures, Proposals for Alleviating Transportation Problems

From what we have learned through investigations of some enterprises, it is possible to alleviate some of the transportation problems by relying on the enterprises' own efforts and meticulous work to maintain close contacts with the railway department, gear up their organization and management of production, and make proper transportation arrangements for their products. For enterprises to further improve the transportation of their machinery products and better coordinate with the railway and other transportation departments in overcoming the current difficulties, the following proposals are offered:

1. With the change in the operational mechanism of enterprises and the transition of enterprise operations toward the market economy, it is imperative to change the old idea of requiring favorable external conditions for developing key enterprises or doing major tasks. Given the difficult situation with respect to railway transportation, it is suggested that enterprises have a deeper understanding of the railway transportation department and form a mutual-support relationship with that department. Enterprises themselves should devote more efforts in joining the railway transportation department in solving problems. Key responsible persons of enterprises should attend to the goods delivery and transportation work as a significant task. Transportation departments of enterprises should take the initiative to maintain contacts with the railway department and ask the latter to come to their factories and get acquainted with the work from production and operations to the storing of products and the preparations for the delivery of goods. They should also ask the railway department to come to their places to check the car-loading work and help make reasonable transportation plans.

2. All production enterprises should clearly understand that a production project without a transportation plan is not a complete project. That is, they should include transportation plans in their production projects. This year production and sales of machinery have picked up, and demand has increased by a relatively big margin. Because of this, machine-building enterprises, while soliciting orders, should pay more attention to formulating scientific and well-conceived production plans. They should make careful arrangements for production and see to it that finished products are put into the warehouse on time. Production management on the spot should be based on the order of delivery dates specified in the contracts and the importance and urgency of the key tasks assigned by the state. As to incoming materials and outgoing products, enterprises should have a clear idea about their quantities so as to coordinate with the railway department in doing a successful car-loading and unloading job. They should do quick loading and unloading work and ensure on-time delivery of their products so as to speed up the turnover of cars. When requesting cars, they should be accurate—there should be neither exaggeration nor omission in their requests.

3. Because of the current conditions of railways and railway bridges and the railway department's regulations on transportation of oversize items, development of large domestically made equipment should be gradually oriented toward systematic categorization and standardization. When designing a piece of large equipment, the enterprise should consult with the transportation department and sign a transportation agreement with the latter. The design department of the factory should not only ensure the performance and quality of the new product, but also consider its transportation feasibility. If the enterprise fails to obtain approval from the transportation department beforehand and does not report its plan to the competent authorities in charge of production, thus inflicting a loss on the state, the enterprise leader should be held responsible.

4. With regard to those products that can also be transported via highways or waterways, production enterprises should consult with their customers to arrange delivery through diversified channels, such as delivery by highways in combination with railways or using trucks in combination with ships, so as to reduce the pressure on railway transportation departments.

5. Container transportation is a hallmark for modern transportation. It is safe, reliable, and fast, and makes door-to-door transportation possible. The state has formulated special policies for container transportation, allowing separate listings of transportation plans, separate submission of daily car requests, and separate treatment of statistic reports. Also, under these policies, priority is given to the examination and approval of container transportation plans, allocation and dispatch of container-carrying cars, and retrieval of empty cars after the containers have been unloaded. Scheduled, fixed-route nonstop container-carrying express trains should be put into operation in those main railway

sections where large numbers of containers could be transported. It is suggested that enterprises adopt this new transportation method as long as conditions permit.

6. Delivery of products is a significant part of production management. It is a highly technical and specialized task. Comrades responsible for transportation work should have necessary professional knowledge and be familiar with the technical conditions of different types of cars, the safe-loading requirements, and related transportation regulations. They should see to it that the loading and unloading work is carried out in strict accordance with the plan so as to minimize the time the railway cars are held up at their places. Enterprises should keep the responsible comrades for transportation relatively stable at their posts and, at the same time, create conditions to train and improve their work proficiency and enhance their sense of responsibility so that they will become professionally competent and can avoid mistakes in their work.

7. Railway transportation tasks not included in the plan serve as a supplement to the tasks contained in the plan. However, enterprises should try to include their car requests in the original plan rather than submit an underestimated plan and have to make additional requests afterward. It is hoped that enterprises will devote more efforts to doing meticulous work to coordinate their input and output plans. As for cars required to send goods to Guangdong and Fujian, including those within and out of the original transportation plan, the regulations of the Ministry of Railways stipulate that the economic commissions of these two provinces make projections of the requirements. The enterprises concerned, together with their customers, are requested to help the economic commissions make a success of this work.

8. Relevant departments and bureaus of all provinces and municipalities should pay attention to transportation as a major part of production management. They should constantly learn the difficulties experienced by enterprises in transportation and make positive efforts to help solve these difficulties. They should see to it that product-delivery work is combined with the solution of the overstock problem. And they should pay attention to collecting information on how machinery products are transported in their localities so that good experience can be promptly publicized, and exceptionally striking problems immediately brought to light.

## AGRICULTURE

### GATT Impact on Agricultural Machinery Industry

#### Ministry Director's Views

93CE0255A Beijing ZHONGGUO NONGJIHUA BAO  
in Chinese 16 Dec 92 p 2

[Article by Xing Yujiu (6717 3768 0036), director of the Department of Policies, Laws, Regulations, and Restructuring, Ministry of Machine Building and Electronics,

and Yang Hua (2799 5478), section chief: "Impact of GATT on Agricultural Machinery Industry and Suggestions"]

[Text] As far as the agricultural machinery industry is concerned, restoring China's status as a signatory of the General Agreement on Tariffs and Trade [GATT] by and large will do more good than harm.

On the positive side, restoring China's membership in GATT will present the development of the nation's agricultural machinery industry with three opportunities:

1. China's accession to GATT will be a powerful shot in the arm for the reform and development of the agricultural machinery industry. First of all, it will enormously quicken the pace of the restructuring of the industry, quickly adapting it to suit the socialist market economy. Secondly, it will speed up the overhaul of the operating mechanisms of agricultural machinery enterprises, which will help them adopt operating mechanisms suited for competition on the international marketplace.

2. Restoring China's status as a signatory of GATT will open up the agricultural machinery industry even wider to the outside world and accelerate its internationalization. First of all, GATT will give us a new opportunity to increase agricultural machinery exports, which have a high added value. This will facilitate our drive to export a whole range of diversified agricultural machinery products. Secondly, GATT provides a more complete set of conditions for adjusting the foreign trade policy of the agricultural machinery industry even more effectively, which should help enhance the ability of the agricultural machinery industry to participate in international specialization.

3. The restoration of China's membership in GATT would greatly intensify the sense of urgency of the agricultural machinery industry about restructuring, forming a powerful external force for accelerating the circulation of inventories and industrial restructuring. First of all, after China joins GATT, the domestic market will open up to the outside world over time, which will help check the serious duplication of projects involving "hot" products and their mindless production. Secondly, contacts and cooperation between the domestic and the international markets would help the industry adjust its mix of products in accordance with the rule of "two markets, two kinds of resources" and become more competitive overall. Secondly, with China's accession to GATT, there will be even closer integration between China's agricultural machinery industry and the international economy and foreign technology, which will help the industry import advanced foreign technology, accelerate technological transformation, and raise the level of technology.

China's accession to GATT will be a blow to the agricultural machinery industry in three ways:

1. For makers of oversupplied products, China's accession to GATT would mean that they would have to make new choices and take a new direction. Some low-quality enterprises may have to suspend operations, switch to another product, or go into bankruptcy after China joins GATT. Products that fall into this category include agricultural trailers, 3-15 horsepower walking tractors, 15-20 horsepower belt-transmission tractors, drying machines, crop harvesting machinery, threshers, small swathers, seeder-cultivators, tractor-harrows, machinery for gathering and processing livestock products, machinery for raising livestock, milkers, dairy machine parts, seed cleaners, weeders, feeding and processing machinery, crop expanders, huskers, agricultural pumps, tea leaf machinery, plastic film covering machine, and crop protection pumps. As long as the domestic market is protected, agricultural machinery enterprises producing these machines have barely managed to survive. Once the market is opened up, some of them are expected to be eliminated as a result of intense competition on both the domestic and international markets. Judging from the supply-demand balance in 1991, for instance, there is a 30 to 40 percent surplus capacity in the industry making mid-priced and low-priced single-cylinder diesel engines. Once China joins GATT, its future can be imagined.

2. Enterprises which have a solid foundation or which in recent years have been turning out competitive agricultural machinery using imported technology should ready themselves for the challenge that comes with China's accession to GATT and for competition on the international marketplace. Among these products are corn harvesters, rice transplanters, cultivating weeders, winnowers, parts and components for machinery that prepares land for farming or horticulture, bodies (including the driver's cab) of caterpillar tractors and wheeled tractors, planters, multi-purpose machinery, precision seeders, fertilizer applicators, seedling transplanters, agricultural diesel generating sets (excluding the three to five kilowatt size), seedling transplanting preparation machinery, semi-mechanized water-drawing equipment, tractor plows, forage grass harvesters, cotton growing machinery, tractor seeders, and agricultural transport vehicles. There are two possible scenarios in the future of these products, which may be considered to have a fair shot at competing. In the first scenario, their manufacturers are able to make the most of the situation and grasp the opportunity to improve their products. As a result, they manage to make progress amid competition. In the second scenario, product quality rises slowly and the product is eliminated in competition on the world market.

3. Then there are those large technology-intensive agricultural machinery products developed more recently. As state protectionist measures are reduced or abolished, their survival and development will be threatened. Among this group of products are caterpillar tractors and wheeled tractors of more than 85 horsepower, grain harvesters of more than 120 horsepower, internal combustion engines for agricultural machinery and their

parts, and combine harvesters. In scale of production, level of technology, or product quality, these products, still in their infancy, are no match for their counterparts in advanced nations. If the wall of protection is torn down and no effective appropriate measures are taken, these industries will be hard hit and their nascent products may die an early premature death, rendering us dependent on advanced countries. This is something we must understand fully and clear-headedly. In addition we do a lot of barter trade with the former Soviet Union and Eastern Europe involving large and mid-sized tractors, combine harvesters, and other agricultural machinery. Because of the low prices of these products from the former Soviet Union and Eastern Europe and the fact that they enter the country tariff-free or paying tariffs at reduced rates, they may also deal a blow to the domestic market. Appropriate countermeasures are called for here.

To enable China's agricultural machinery industry to seize the initiative and flourish after China is admitted to GATT, the government needs to take the necessary protectionist measures depending on the state of each industrial product and make the necessary adjustments to the appropriate policies. In addition, starting today agricultural machinery enterprises must prepare for the day when China is admitted to GATT.

1. Become familiar with all pertinent provisions in GATT immediately. Popularize basic knowledge about GATT and other laws, rules, and regulations relating to international business. Learn to use the appropriate international trade provisions to the full to protect our trade and economic interests. At the same time, restrain our economic and trading conduct in accordance with international rules. Take the initiative to use all the tools allowed by the international economic community to engage in exporting and importing properly. Make the practices of Chinese enterprises consistent with their international counterparts.

2. Step up intellectual property rights work relating to imports and exports. Teach basic knowledge about intellectual property rights. Enhance the enterprises' respect for and protection of patents and trademarks.

3. Examine specific steps that would help expand exports and lead us into the international market and open up a wider horizon for the survival and development of agricultural machinery enterprises. After China's accession to GATT, the trading climate for agricultural machinery exports will improve but whether or not we can take advantage of the opportunity and create a macroclimate for exports will depend primarily on the quality of the enterprises themselves. There are altogether 2.5 million combine harvesters in the world today, with the annual demand ranging between 200,000 to 250,000. As Chinese products usually cost 25 percent less than comparable foreign products, they should do quite well in developing countries and other newly developed areas. The United States imports 60,000 wheeled tractors under 40 horsepower each year and

manufactures no such product. Despite an annual rice output of 7 million tons, including 4 million tons which need to be processed into polished rice, South Korea has just one plant that manufactures rice processing equipment and must rely on imported Japanese machinery, which is 2 to 3 times more expensive than comparable Chinese-made products. Similar trade opportunities abound. Provided enterprises that make goods in demand work to open up the international marketplace in a targeted way, accession to GATT will offer them new room for survival and development.

4. Speed up the transformation of enterprise operating mechanisms. Improve their competitiveness and achieve economies of scale.

Whatever its scale, every agricultural machinery enterprise must operate on the assumption that after China joins GATT, it will be directly competing against highly experienced foreign enterprises with formidable resources and must therefore diligently explore adopting an intensive production mode. They must rethink their ideas and cast away illusions. Otherwise, their fate will be sealed amid brutal international competition.

### Opportunities, Challenges

93CE0255B Beijing ZHONGGUO NONGJIHUA BAO  
in Chinese 19 Dec 92 p 2

[Article by Cui Chengyin (1508 2052 6892) and Yang Yuqing (2799 3768 2532): "GATT Offers Tractor Industry Opportunities and Challenges"]

[Text] The restoration of China's status as a signatory state of GATT will necessarily impact the nation's economic life. As far as the tractor industry is concerned, this impact has both positive and negative aspects. It is a challenge as well as an opportunity.

1. After a decade of hard work since the Sixth Five-Year Plan, China's tractor industry has achieved a formidable productive capacity. Each year it turns out over a million machines that run the gamut of a full lineup of products. The foreign exchange earnings of small tractor exports have doubled in the last couple of years.

2. In terms of product variety, currently Western nations, the Commonwealth of Independent States [CIS], and Eastern Europe are concentrating on large tractors and producing relatively few small and mid-sized tractors. By filling this gap, China can avoid head-to-head competition with these nations. In fact the potential market in those countries for small and mid-sized tractors cannot be underestimated. In the past few years a number of tractor enterprises in China have made some highly fruitful efforts to open up overseas markets. They are doing very well.

3. Turning to the operating mechanism of the industry, since reform and the open policy got under way, China's tractor industry has acquired all the attributes of a market economy, with tractor prices approximating

market values. After accession to GATT, the presence of a large market will have a relatively limited effect on the tractor industry. The enterprises will adapt to the market relatively quickly and be able to cope with it.

4. China is well placed to compete in price. Chinese tractors can perform all the functions to satisfy basic user needs. Moreover, they enjoy a clear edge in price. After China joins GATT, foreign trade reform will make our policies even more flexible and enterprises will enjoy even more decision-making authority in their operations. All of that will only put the tractor industry in a stronger position in international competition.

5. From the development perspective, there is a potential market for variants of China's small tractor series in the West. In the past few years China's tractor enterprises have worked hard to design and develop modified versions of their small tractor series specifically with the diverse needs, gardening, agronomical, and engineering of some nations and regions in mind. These products are expected to find a foothold on the markets in some nations and regions.

Even as it benefits the industry in the above-mentioned ways, China's admission to GATT will also deal a blow to it, primarily in the following ways:

1. China's large tractor industry will face a grim situation. Accession to GATT would orient the Chinese market toward the world as well as opening up a broader market for us. Compared to similar foreign products, China's large tractors still fall significantly short in quality and variety and do not perform as well. Nor do they command a price edge. Accordingly there is no cause for optimism.

2. Poor equipment, low level of technology, and inefficiency. These are widespread problems in China's tractor industry. Compared to foreign enterprises, China's enterprises have higher production costs. These factors will directly affect China's competitiveness.

3. China's tractors are no match for those of advanced nations in performance and technical standard. They are far less advanced than the latter and the lineup of products is not as complete. This must be considered a weakness for China's tractor industry when it competes with advanced nations.

4. Chinese tractor enterprises trail their foreign counterparts also in their ability to turn out new products and turn-around time. After China joins GATT, it is entirely possible that foreign enterprises, using their ability to produce inexpensive machinery, will pry open China's market with their modern and low-priced small agricultural machinery suited to China's market. If that comes to pass, competition on the domestic market is bound to heat up.

### Tractor Manufacturing Impact

93CE0255C Beijing ZHONGGUO NONGJIHUA BAO  
in Chinese 19 Dec 92 p 2

[Article by Mo Xiaomin (5459 1420 3046): "Strategy To Deal With GATT Impact on the Tractor Industry"]

[Text]Enterprises Cry "Wolf"

Accession to GATT is being described as a "beautiful but horrifying spirit." Some captains of industry in the agricultural machinery business, already facing an explosive situation in border trade, are crying wolf in alarm. This was what impressed me most about the seminar in late November organized by large and mid-sized tractor plants to discuss China's accession to GATT.

Accession to GATT and border trade should be two separate things to begin with. This is particularly true of our border trade with the CIS since neither party is a member of GATT. However, border trade has shaken up China's agricultural machinery industry (including cars), and has almost become a dress rehearsal for what would happen after China is admitted to GATT. On and on they come, train after train loaded with Kamasi and Kangbaiyin [phonetics] tractors and large horsepower tractors across the border into China in the northeast, Xinjiang, and Inner Mongolia. While CIS products are not the most advanced and service, including the supply of fittings, is less than satisfactory, they have pried open the Chinese market using their edges in price and performance. (A 90 horsepower CIS tractor costs just a tad over 50,000 yuan or even less. In contrast, the ex-factory price of China's 802 model tractor is 54,000 yuan, with the retail price, ranging from 64,000 to 72,000 yuan.) Prior to 1991, we imported a total of 400 tractors from the former Soviet Union. After 1991 we opened up border trade across the board, enabling tractors to be imported through various channels in many ways and at many points. There are 270 border trade companies at ports along Hei He alone, paying for tractors with sugar, non-staple foodstuff, or leather jackets. Since prices vary, it is difficult to come up with exact figures.

Tractors imported into China through border trade have had an enormous impact on the domestic agricultural machinery industry. According to statistics on the Siping Combine Harvester Company, this year China will import about 2,000 large combine harvesters while there is an annual demand in China for 3,000 to 4,000 such machines. Our four large key combine harvester plants cannot produce enough to close the gap. Zhou Wenqiang [0719 2429 3068], deputy director of the No 1 Tractor Company, said that the four tractor plants in the CIS, including Haerkefu [phonetic], have a combined annual output of 150,000 tractors, while No 1 Tractor Plant turns out a mere 20,000. Even if China imports only one-tenth of the output of the CIS, the No 1 Tractor Company would be wiped out.

Clearly China's agricultural machinery industry has not been fully prepared for this situation. Firstly the industry

cannot meet the domestic market needs in that it does not produce enough good-grade products and there is not enough variety. Dong Mingliang [5516 2494 0081] is director of the maintenance section of the State Farms and Land Reclamation Department at the Ministry of Agriculture, a large user of imported tractors. He said, "Right now there is not enough variety in the products of China's agricultural machinery industry. The lineup of products is less than complete. Take large horsepower tractors, for instance. The nation manufactures more than 20,000 802-model tractors, but they are not powerful enough. They pull only three plowshares and do not plow deep or wide enough to meet special needs. For this reason, we have to go overseas to buy tractors with over 100 horsepower. Also, domestic farm tools consist mainly of plowing, harrowing, sowing, and harvesting tools, which are no help to the farms' push for commercialized production. There are numerous gaps in our lineup of farm tools. We lack farm implements for gathering tea leaves, harvesting sugar cane and sugar beet, recovering plastic film, and recovering and processing human and animal manures."

Turning to the internal structure of enterprises, they are not fully prepared whether psychologically or in terms of their operating mechanisms. The endless stream of supplies from the CIS worries domestic producers. Some enterprises know nothing about the foreign market, relying instead on foreign trade companies to handle their exports. They have no idea where their products are shipped to, how much they are sold for, or what others think about the quality of their products, let alone who the industry leaders are in the world or where they stand in the international pecking order. Naturally they are at a loss as to how to deal with the new situation. Other enterprises are unable to overcome the problems inherited from the planned economic system and are too preoccupied with them to heed changes in the market outlook. No wonder Sun Huiyuan [1327 2585 0337], deputy director of the GATT Institute at the Ministry of Foreign Economic Relations and Trade, said, "The issue right now is not getting admitted into GATT. An even more important concern is that all trades and industries get into action and start studying and changing with zest."

#### **Pre-GATT Strengths, Weaknesses**

Deputy director Zhou Wenqiang of No 1 Tractor Company said, "Owing to special historical factors, there is a wide gap between the prices of our agricultural machinery products and those of similar foreign products. The domestic price of a Fiat-90 series large tractor made using imported technology is 84,000 yuan. A comparable foreign product, in contrast, sells for \$24,000 or \$25,000, equivalent to 140,000 yuan. In this respect, our products are closer to the purchasing power of most peasants." After China's accession to GATT, China's farm machinery will enjoy a definite edge on the domestic market. It will be hard for upscale products from advanced nations to take over that segment of the market.

Director Zhou Wenqiang's observation was echoed by factory directors, experts, scholars, and government officials at the meeting. But they also noted that enjoying an edge does not necessarily mean beating the competition. Border trade has shed light on several things that are wrong with agricultural machinery enterprises. For instance, resources are fragmented, products are low in quality, and after-sale service is poor. In particular, a vast number of enterprises have no access to domestic or international information, lack an advanced information system and use only backward tools. Information blackout among enterprises in the same industry has only served to keep all of them in the dark. Reports suggest that because of problems in China's foreign trade system, many enterprises do not even know the selling prices of their products on the foreign markets. The director of an agricultural byproducts processing machinery plant went to the office of the foreign trade company with a request for information only to be rebuffed. Only by digging through the waste papers in the wastebasket when nobody was watching did he find out the selling prices of his own products and learn that the company charged far more for the goods than it paid for them. The distribution of interests was grossly unfair.

This being the case, many agricultural machinery enterprises worry that after China is admitted to GATT, they would instantly collapse before foreign competition even if they manage to avoid engaging in cannibalism with other Chinese enterprises.

For this reason, agricultural machinery enterprises must grasp the opportunity to adjust themselves and face up to the challenge with a new look.

#### **Grasp Opportunities, Develop**

The reason China is joining GATT is to upgrade its industrial enterprises and orient themselves away from China and toward the world. Many experts, scholars, officials, and even retired ministers at the meeting put forward ideas for the enterprises, pointing up new ways of thinking for them and rousing their enthusiasm. Their proposals can be summed up as follows:

##### **1. Adjust product mix**

Among other things, this means making more upscale products and increasing product variety. As part of China's border trade with the CIS, large Russian-made tractors have been pouring into China precisely because they have filled the void of tractors over 100 horsepower. Lu Zehe [7120 0463 7729], director of the office of science and technology of the engineering and agricultural machinery department, Ministry of Machine Building and Electronics, said, "Whether we are talking about border trade or admission to GATT, we must look at the impact from two perspectives. On the one hand, our market will indeed be directly affected. On the other hand, it will force enterprises to reassess the market. Nobody can rely on a monopoly to corner a market forever. They must adjust the product mix and turn out new models and new products to satisfy market needs."

## 2. Improve and Increase Services

This is a serious and longstanding problem in the agricultural machinery industry. Dong Mingliang said, "Right now some domestic agricultural machinery enterprises still stress main engine production and overlook the production of fittings. Departments that use and manage agricultural machinery stress the former and ignore maintenance. Sales and services departments continue to concentrate on the selling stage and have no direct contact with users, which makes them less competitive."

The only way enterprises can emerge a winner in the global marketplace today with its stiff competition on product quality and price is to go all out to excel in product-related services. In the past decade AT&T, the American firm, derived one half of its earnings from services. In fact, services have been contributing a growing share of the company's incomes year after year. The International Business Machines Corporation also has declared publicly that it is no longer in the computer manufacturing industry but is a full-fledged provider of services in the service industry. John Deere Company has a sales service center for every 500 users to sell parts and components, train mechanics, and accept old parts in return for new ones. It can thus be seen that it is the service strategy that will decide who wins and loses in enterprise competition. No longer can our agricultural machinery enterprises continue to overlook the important issue of "service." Deputy general secretary Lin Shu [2651 2579] of the China Marketing Society said that enterprises should utilize their strengths—years of experience and a comprehensive network—to improve their services further and, using traditional channels, establish closer ties with the interests of sales outlets.

## 3. Orient Ourselves Toward the World

Another way to steer our products overseas and catch up in services is to have our companies registered and set up plants overseas.

Officials from the Shanghai Tractor Plant and Tianjin Tractor Plant at the seminar said that while their products are selling well in some countries these days and many foreign businesses have made inquiries, they are being hampered by a lack of exporting rights. Reportedly only the No 1 Tractor Plant among all large and mid-sized tractor plants is authorized to export. Since they are not so authorized, many plants can only rely on the foreign trade companies to do the exporting for them. One consequence is that the products are underpriced to the detriment of the enterprises. Another consequence is that enterprises experience difficulty offering follow-up services, which makes it hard for them to secure their grip on a foreign market.

As General Secretary Ren [0117] saw it, there are actually many ways for enterprises to export their products and orient themselves overseas. Besides pushing for the right to export, enterprises can set up joint ventures, find a foreign firm as agent, or open a business office in a foreign trade company. These methods are particularly suited for small and mid-sized agricultural machinery enterprises. In addition, they can directly register themselves overseas. The procedures are simple. (In America, reports say, you can register a company with just \$15,000 plus \$15,000 deposited in a bank. Registration is valid for six years.) Once the enterprise is registered, it can operate in the United States as a local company. Needless to say, going overseas requires a long-term and comprehensive plan. A local agent must be relied on to offer good after-sale services.

## 4. Take the Road of Integration

Whether to neutralize the impact of border trade or to ready themselves for global competition after China is admitted into GATT, agricultural machinery enterprises should take the road of integration.

Yu Lixin [0060 4537 5647], a research associate at the Finance and Trade Institute of the Chinese Academy of Social Sciences, said, "The first thing enterprises should do to integrate themselves is to set up a trade association. After China is admitted to GATT, the opinions of such an association will play a major part in the resolution of trade conflicts by world economic organizations as well as inter-governmental trade negotiations. At present most trade associations in China are of a 'social' nature. They should be developed into substantive organizations that deal with real issues and be a force in the industry."

Li Ben [2621 2609], a vice minister of the old Ministry of Agricultural Machinery, said, "Faced with a market economy, the agricultural machinery industry must be reorganized. Some enterprises have no alternative but to switch to another product, go into bankruptcy, or be taken over and absorbed by another enterprise. The market economy is ruthless. Integration is the way to go. The No 1 Tractor Company should take the lead in reaching out and joining forces with other tractor plants and other factories making accessory farm tools. A sound division of labor can give them an edge within a short period of time. The agricultural machinery industry should consist of four or five large groups."

Indeed, after enterprises form themselves into groups, they will be in a stronger position to orient themselves toward the world, offer all-round follow-up services, or set up an information system, doing things an enterprise cannot do by itself.

By forming themselves into groups, enterprises will become a powerful force.

**Letter Protests Forced Religious Believer ID-card Sales***93CM0153B Shanghai TIAN FENG [HEAVENLY WIND] in Chinese No 120, 1 Dec 92 p 23*

[Letter to the editor by Xin Meng (6580 1322): "Must Freedom of Belief Be Paid for in Cash?"]

[Text] Dear editor of TIAN FENG: We religious adherents here are now being sold "Religious Belief Cards" by the county Religious Affairs Office for two yuan apiece (which cost only 30 fen to make), with believers who do not buy such certification not being recognized. Many followers of religion are very puzzled by this. As our constitution guarantees citizens the right to freedom of religious belief, why must we buy such cards from the government to be certified as believers? Moreover, if it is necessary to issue some sort of credentials to believers, this should be done by churches, just as student ID cards are issued by schools, employee IDs are issued by work units, and membership cards are issued by the groups concerned. Will the editor of TIAN FENG please explain this matter. [signed] Xin Meng.

Dear Reader: We have received other letters such as yours, and we know that the two national offices concerned have also received such letters, along with accompanying samples of such "Religious Belief Cards." We all consider such actions to be quite inappropriate. While sales of such cards are now limited to county-level religious affairs departments, with only three or four provinces and a handful of counties at most being involved, so that their impact is not too great, this is certainly not an inconsequential matter. The two national religious associations consider it a very serious matter and have written letters to the State Council Bureau of Religious Affairs asking them to investigate and stop this practice. The Editors.

**Market Reforms Require New Constitutional Changes***93CM0153A Shanghai FAXUE [JURISPRUDENCE] in Chinese No 133, 10 Dec 92 pp 5-9*

[Article by Sun Chao (1327 3390) and Qi Yuan (2058 3220), affiliated with East China Politics and Law Academy: "On Establishing the Constitutional Standing of a Market Economy"]

[Excerpt] [passage omitted]

**I**

A socialist market economy is an economic system that combines a market economy that relies mostly on market forces for its disposition of resources, with a planned economy that depends on complementary administrative means of macroeconomic regulation and control. In the historical process of the development of market economies, all market economies have been accompanied by certain standards, which were drawn up by or made into law with the approval of the state in the

course of developing the market economy. This means that the establishment of a market economy, the operating rules of a market economy, and even the remedies for a market economy's defects all have close constitutional and legal ties.

1. The formation of markets requires clear property rights relations, i.e., clear demarcations of property ownership and use rights, as well as of the corresponding relations between property value and property. Clear property rights relations means ensuring the rights of property owners to property profits, which is the essential driving force that spurs property owners to effectively utilize and accumulate property. This driving force is precisely why property owners carefully plan their economic activities, operate conscientiously, and strive for efficient economic activities, which leads to the optimum disposition of economic resources. As the demarcation of property rights relations is bound to partially involve the matter of ownership, which is undoubtedly a constitutional issue, the constitution must approve and protect the property ownership and use rights and the disciplinary authority of the various major interests.

2. The clarification of property rights relations is bound to form various major interests (which operate independently, have the sole responsibility for both their profits and losses, and can freely enter or leave their chosen industries). All of these independent major interests are key elements in the basic market economy makeup, without which market exchange and competitive forces could hardly exist, and genuine markets could not be formed. And participation in market competition by these various major interests requires a set of public exchange and competition rules, which is a prerequisite for a market economy system. A corresponding competitive market system for commodity markets and market essentials, such as land, capital, and labor, must be established along with this set of rules. Only in this way will it be possible for all market economy components to develop in a coordinated way and operate harmoniously.

3. A market economy also requires a macroeconomic regulation and control system of mostly indirect regulation and control through market intermediaries, such as the central banking and taxation systems. In order to guarantee the abidance by market rules, the government as an organized system of authority must unavoidably play the role of market organizer, with the demarcation of government authority, and government intervention and market organization methods all needing to be provided for in law, and in some cases having to be confirmed constitutionally. Market rules in this case are ones that must be observed in government intervention and organization.

4. Remedies for market economy defects must also be effectively reconciled constitutionally and legally. As we know that markets are an accelerator that pushes wealth toward the most efficient operations, allowing this accelerator to operate without restrictions would result in the

rich getting increasingly richer and the poor increasingly poorer. A market economy can make money the yardstick for judging everything, and striving for maximum profits as the driving force behind all actions, which could turn society into a heartless, money-driven machine and money into a "tyrant" that rules the world. But as economic polarization is created mainly through the absolute possession of capital goods, our constitution must adhere to the dominance of public ownership and mostly distribution according to work, while allowing other ownership forms and distribution methods to coexist. Ownership and distribution forms can restrict and remedy market inequality trends.

## II

It is thus obvious that China's socialist market economy must be established on a legal foundation with the constitution at its core. But the current PRC Constitution that came into being at the end of 1982 was the product of a planned economy, which it also makes its target for protection. Its Article 15 clearly confirms that "the state practices a planned economy based on socialist public ownership," and provides that "the state uses the overall balance of economic plans and the supplementary role of market regulation to ensure the proportional and balanced growth of the national economy." This means in other words that the state should include basic production and circulation in its centralized planning, including both directive and guidance planning. Without excluding other products outside of centralized planning, it allows enterprises that produce these other products to plan their own production flexibly according to changes in market supply and demand. While China's former planned economy undeniably played a key positive role in our history, social developments and changed conditions have left this planned economy model that was in effect for decades severely blocking the development of our society's productive forces, and made it increasingly unsuited to our modernization needs. Under the constitutional principle that "a planned economy is the basis of a socialist economy," our constitution stipulates that public ownership includes only the two forms of state and collective ownership (Article 6), while denying the existence of other forms of public ownership, which is obviously out of line with our developing realities. As to the relations between planned and market economies, our constitution also stipulates the dominance of the planned economy, with market regulation as supplemental (Article 15), providing for the limited use of market regulation under planned control, which is undoubtedly an outdated idea. And our constitution is very single-purpose in its provisions on the distribution principle of from each according to his ability, to each according to his work (Article 6), which negates the existence of other rational distribution forms and legally-earned incomes, and is obviously out of line with the key elements of diversified market economy development. Proceeding from the idea of a planned economy, our constitution grants special protection to the public economy, as well

as giving the public economy a higher standing than that of other economic components, which leaves the public economy with an artificial precedence over the market economy, and puts other economic components in an inferior and obviously unfair position. Since our current constitution still contains so many items that are out of line with our changed social realities, we need to amend it, or our deepening of reform will be blocked by constitutional clashes. While we have drawn up many new safeguards, our laws and regulations promoting market economy development still have no constitutional basis. This means that we need to promptly amend the items in our constitution pertaining to our economic system, in order to ensure that our constitution continues to play its proper role in our real lives.

## III

The standing of the market economy in China's economic activities is in dire need of clear confirmation by fundamental national laws. As to our economic system, the current PRC Constitution should be provided with the following new additions:

1. The concept of a socialist market economy and the aim of establishing a market economy system should be put into our constitution.

It was pointed out in the report to the 14th CPC Congress that "we are establishing a social market economy to enable markets to play a fundamental role in the disposition of resources under the macroeconomic regulation and control of our socialist state, to ensure that our economic activities observe the demands of the law of value and adapt to changing supply and demand relations, to take advantage of the functioning of value leverage and competition forces to achieve a better disposition of resources and give our enterprises both pressure and motivation, in order to achieve the selection of excellence by elimination through competition, and to utilize the advantage of the more sensitive response of markets to all economic signals to promote a timely balance between production and demand." This actually lays down a series of basic principles for China's future economic reform and development, which clarifies our reform direction. These items ought to be written into our constitution in principle.

2. Property rights relations should be clarified in our constitution.

Under our planned economy, enterprises were government appendages instead of independent entities in operating activities. As our market economy develops, enterprises must cast off their standing as government appendages to become genuine economic entities with independent operations, sole responsibility for both their profits and losses, and competitive vitality. This means that they not only need operating authority, but also must enjoy more ownership rights. The state should actually become a "shareholder," exercising macroeconomic regulation and control through markets, and

acquiring profits through taxation. The 14th CPC Congress report notes that: in our establishment of a socialist market economy, we should convert the operating forces of our state-owned enterprises, particularly large and mid-size ones, in order to make our enterprises more market-oriented, enhance their vitality, and improve their quality. And we should rationalize our property rights relations, by separating government administration from enterprise management and giving enterprises independence, so that they can become genuine legal entities with operating independence, sole responsibility for both their profits and losses, and self-development and -restraint forces, as well as major market competitors who can take on the tasks of ensuring and adding to the value of state-owned assets. But as to how to separate government administration from enterprise management or rationalize property rights relations, our legal provisions are actually very vague. Unless we clarify our property rights relations, this so-called rationalization is likely to be principled but unsuccessful. This means that it will be only through clearly demarcating our property rights relations constitutionally and legally, in order to turn them into very detailed and stable legal relations, that we will be able to create a number of independent major interests, in order to achieve the plan proposed by the 14th CPC Congress report of "making our enterprises market-oriented."

3. Our constitution must confirm and protect diversified forms of distribution along with mostly distribution according to work.

The absolute principle of "from each according to his ability, to each according to his work" is the socialist principle of distribution in a planned economy. Pure distribution according to work excludes production essentials markets, thus keeping market efficiency from being brought into full play. In the process of reforming our economy to make it more market-oriented, we not only should constantly develop the particular content and form of distribution according to work, but also need to confirm and protect other rational distribution forms to make them more rational, standard, and institutional. In a market economy, pay according to work and compensation for the use of capital are also the consequences of objective economic laws. While adhering to distribution according to work, we should also allow distribution according to production essentials, operating risks, and operating opportunities. This is why the 14th CPC Congress report pointed out that "a distribution system of mostly distribution according to work supplemented by other distribution forms takes into account both efficiency and fairness. Utilizing various forms of reconciliation, including markets, encourages progress, promotes efficiency, and rationally widens the income gap, while preventing polarization and gradually achieving common prosperity." This not only is a principle of China's socialist constitution, but also is the ultimate aim of socialism—social fairness and equality. As socialism can exercise the necessary restrictions over the inequalities created by a market economy, a socialist

market economy can take effective advantage of high market economy efficiency, while keeping money from becoming the "tyrant" that rules the world, in order to preserve the right degree of social equality.

4. Our constitution should expand civil rights both intensively and extensively.

As we continue to deepen our reform and opening and gradually establish a market economy, certain civil rights suited to the inherent laws of value of a socialist market economy must be confirmed constitutionally. These fundamental civil rights are mostly as follows:

A. The civil right that private property is inviolable. The current PRC Constitution acknowledges that citizens enjoy the right to own private property, and provides for state protection of citizens' private property ownership and inheritance rights (Article 13). Article 2 of the constitutional amendments passed by the First Session of the Seventh NPC (12 April 1988) supplements Article 11 of our current constitution, adding provisions on the private economy, and providing for state protection of the private economy's legitimate rights and interests. But while this is of major significance in guaranteeing fundamental civil rights, developing commodity economy production, and preserving socio-economic order, our current constitutional provision that "socialist public property is sacred and inviolable" (Article 12) certainly does not clearly provide for "the inviolability of citizen's private property." This clear constitutional difference in the level of protection for public and private property is obviously detrimental to wealth accumulation and social stability. A market economy prerequisite is that major economic players, including private citizens, enjoy freedom of economic activity, and individual freedom of economic activity is based on the inviolability of individual property ownership rights. So in order for our constitution to establish the standing of a market economy and ensure our smooth development of a market economy, it should establish the inviolability of the private property owned by our vast numbers of citizens, as well as that requisitioning of citizens' private property by the state can occur only in the public interest of society, strictly according to legal procedures, and on the essential premise of appropriate compensation being provided. Clear constitutional provisions on this would be bound to contribute to the fulfilment of constitutional duties by citizens in the area of property, such as payment of taxes. In order to prevent polarization of rich and poor as our reforms deepen, we will also need to collect individual income taxes and high inheritance taxes. Constitutional establishment of "the inviolability of citizens' private property" will undoubtedly and certainly promote the fulfilment of the above mentioned civil duty.

B. The civil right of "freedom of movement." We have pointed out that China's economic reforms are a substantive replacement of the form of disposition of resources through mostly planning directives by one based on market forces. In order to achieve a disposition

of resources through market forces, it is necessary to establish a series of system prerequisites, one of which is an open and competitive market system of commodity markets as well as essentials markets for things, such as land, capital and labor. This is why the 14th CPC Congress report called for "speeding up market development, by continuing to vigorously develop commodity markets, particularly capital goods markets, actively developing financial markets for securities, such as stocks and bonds, and expanding markets for things, such as technology, labor, information, and real estate, in order to form a uniform national open market system as quickly as possible; and strengthening market rules and regulations, in order to resolutely break up vertical and horizontal separatism, blockades, and monopolies, and to promote and protect fair competition." An open market system calls for an essentials market for labor, which will result at once in individual workers as independent economic entities being able to break out of the narrow confines of a natural and planned economy to enter a competitive market on an equal basis. As the market disposition of this labor resource requires legal protection of free labor mobility, it is essential that our constitution as our supreme legislative foundation acknowledges that citizens enjoy the right of freedom of movement. During the initial period of the founding of the PRC, China's *Common Program of the CPPCC* and our *1954 Constitution* both provided for freedom of movement by citizens. This was because our socialist transformation was still incomplete before 1956, so China was practicing state capitalism, whose social nature was a new-democracy society, and whose economic nature contained a considerable degree of market economy attributes. This meant that our form of disposition of manpower resources naturally was subject to market laws, making acknowledgement that citizens enjoyed the right of freedom of movement essential. But once we completed our socialist transformation, our resource disposition was changed to complete planned control, so that the freedom of movement necessary for the disposition of manpower resources through market forces was rescinded. [passage omitted] As the 14th CPC Congress has established a new economic system aimed

at mostly market regulation supplemented by state macroeconomic regulation and control, reinstating the right of citizens to freedom of movement in China's constitution will speed up the pace of marketization of our manpower resources, while being a necessary requirement of the new economic system's legal environment.

C. Our constitution should acknowledge the civil right of reform. Self-improvement of the socialist system cannot be completed spontaneously, but will require sustained and steady reform by all Chinese citizens, in order to develop and improve. This means that acknowledging the civil right to reform, so that citizens have the right to act within constitutional and legal limits to take various steps to reform our rigid and backward economic system, as well as our overcentralized political system and other systems, such as culture and education, that are tied to it, has become essential. This will arouse the initiative of our vast numbers of citizens, bringing an abundance of creative vitality to China with its 1.1 billion people. In fact, while China's current constitution does not clearly acknowledge the civil right of reform, or clarify that "the steady improvement of all socialist systems" must occur through "reform and opening," a whole series of party documents clearly point out that "reform and opening" are the major contents of the party's basic line for the initial stage of socialism, and that one of "the two basic points" is fundamental national policy. Guided by this spirit over the last dozen years, China's citizens have achieved one brilliant reform success after another through constant reform and exploration along the socialist road. This means that constitutionally acknowledging the right of citizens to reform not only will confirm the positive achievements made by Chinese citizens in a dozen years of reform, but also will raise the constitutional awareness of all citizens about reform, strengthen their reform consciousness, and keep them continuing to actively throw themselves into the great tide of reform, in order to ensure the regularity and stability of reform. It could be said that the legalization of the right of citizens to reform will be the key to the success or failure of all of China's system reforms. [passage omitted]

### Ministry Issues Circular on Police Station Management

93CM0138A Beijing RENMIN GONGAN BAO  
in Chinese 1 Dec 92 p 1

[Author unnamed: "Ministry of Public Security Issues Circular Calling for Correction of Mistakes Made in Decentralizing Management of Police Stations"]

[Text] In the course of reforming county-level government agencies, some localities have recently transferred authority over police stations in the Public Security system to townships, and in some places police stations have even been converted into security departments for township enterprises. Not only does this run counter to current national law, but it also hampers our ability to exercise unified command and carry out operations as a single unit; makes it difficult to achieve strict enforcement of the law and rigorous supervision within police ranks; and makes it difficult to carry out the functions of a public security organ and preserve law and order. For this reason, the Ministry of Public Security issued a notice on 26 November calling on all local Public Security organs to correct mistakes made in decentralizing the management of police stations.

The notice reiterated the Rules and Regulations on Police Station Organization, a document which was promulgated by the National People's Congress in 1954. The notice also reiterated related instructions from the Central Committee and the State Council. Various law enforcement activities performed by police stations (hiring, firing, transfers, dispatching, investigations, patrolling, etc.) should be under the direct leadership of higher ranking police agencies (e.g.—Public Security Bureaus at the municipal and county levels. At the same time, under the guidance of the party committee and government, police stations must strengthen ideological work, enhance the organization, and improve facilities in order to better preserve law and order in the area over which they have jurisdiction. Local Public Security organs should resolutely strengthen the direct leadership of police stations by municipalities, and they should work earnestly to correct the mistake of completely transferring authority over police stations to township enterprises or completely transferring authority over Public Security Sub-Stations to prefectural governments.

The notice called on local Public Security organs to be good advisors to party committees and governments as they proceed forward with reform of county-level organs. It called upon them to actively put forward their views and suggestions, and while doing so to keep in mind the special characteristics of Public Security organs, the relevant laws and regulations, the need to build up the socialist democracy and legal system, and the need to protect and promote the development of the social forces of production. When any locality is considering a major reform measure which includes laws, policies, and systems which would affect public security work, Public

Security Bureaus and provincial level Public Security Departments must promptly make a report to the Ministry of Public Security.

### Ningxia District Commander on Improving Militia Work

93CM0138B Yinchuan NINGXIA RIBAO in Chinese  
14 Dec 92 p 2

[Article by Hu Shihao (5170 0013 3185), Commander, Ningxia Military Region: "Vigorously Develop Ventures in Which Labor Supports Military Activities; Work Hard To Promote 'the Three Implementations' in Militia Work"]

[Text] Under the new conditions, the commodity economy is developing more and more all the time. If we are to develop the reserves which stand behind our national defense forces in a manner consistent with the goal of economic development, we must further liberate our thinking, inculcate a forward-looking thinking process and a mentality geared to economic issues, fully utilize currently advantageous conditions, and vigorously develop ventures in which labor supports military activities. Only in this way can we better promote "the three implementations" in militia work.

In order to develop ventures in which labor supports military activities, we must first liberate our thinking and change our concepts. Due to the deep impact of leftist things upon people's ideology, some comrades keep using a fixed and unchanging thought process when considering issues. These thought processes and ideological concepts have become obstacles to development of ventures in which labor supports military activities. If we are to liberate our thinking, we must arm our minds with the line, programs, and policies of the 14th Party Congress. In our work, we must boldly try new approaches in order to push forward the program of reform and opening up. It is not enough for those leaders in charge of militia work to just "make like an old cow," i.e.—just do things in the same old way. What is really needed are "1000-mile-per-day horses" that innovate and create. We must dare to do the creative things in our areas of jurisdiction what no one has done or dared do before.

We must take a dialectical view of the relationship between the effort to develop ventures in which labor supports military activities and other types of work. Some comrades take the one-sided view that developing ventures in which labor supports military activities will affect other areas of our work. Some comrades mistakenly believe that in developing ventures in which labor supports military activities, the People's Militia Department is straying from its proper mission. Supporting the military through work in an indispensable task of militia members. As conditions change, the reserve tasks of the militia are growing more numerous and standards are getting higher. The pace of development is rapid, and if we are to take the regularization and training of militia

to a higher level, much will depend on economic conditions. The reason why militia work is proceeding very well in some developed coastal areas is, in essence, due to economic development. By developing ventures in which labor supports military activities, we can lighten the burden upon local governments and the masses and will not have to "reach up for handouts or down to requisition." This will also enable the militia to "produce its own blood" [generate income internally] and accelerate its own development. For this reason, we must have a comprehensive and correct understanding of the effort to establish ventures in which labor supports military activities, and we must view this effort as a project of major importance. Only in this way can we better promote "the three implementations" in our militia work.

We must take advantage of opportunities, take advantage of favorable conditions, and take our own road. In recent years some other provinces (regions) have moved very fast to establish ventures in which labor supports military activities. We are way behind. In our ideological concepts, we are not geared toward competition, innovation, or participation. Most of the projects we get involved in are small in scope and bring few benefits. There are no key projects or relatively stable economic benefits, and there is insufficient impetus toward further development. We must be aware of this gap and learn from the experience of other provinces (regions) in establishing ventures in which labor supports military activities. We must adopt aggressive and effective measures to promote the development of ventures in which labor supports military activities. We must strive to have all militia units in our district become self-funding within three to five years. 1) We must learn how to handle affairs in accordance with economic laws. We must learn and understand the economic theory and economic laws of a socialist market economy in order to adapt to a market economy. We must integrate into the larger social economy and regard ventures in which labor supports military activities as a part of this district's economic development. We must be oriented toward society and markets. In our effort to develop ventures in which labor supports military activities, we must look to society and markets, not to the government or leaders. We must stand on our own feet in market competition, be self-reliant, and promote greater scope and benefits in ventures in which labor supports military activities. 2) We must take full advantage of policies. Party and government organs in Ningxia not only have given very generous concessions to encourage county and township enterprises to develop ventures in which labor supports military activities, but they have also given a lot of support in human, material, and financial resources. With such good objective conditions, we must do a good job of developing our own ventures in which labor supports military activities. In doing so, we must take local conditions into account, diversify, get involved in ventures of all sizes, and enhance the good while eliminating the bad. 3) In proceeding forward with projects, we cannot be overanxious for big, quick success, nor

should we pussyfoot around, timidly sticking to small projects. We must take full advantage of our liaison offices in other parts of China to gather information. We must make money on borrowed land, navigate ships in borrowed water, and cross rivers on borrowed bridges. Regardless of whether we are involved in agriculture or setting up commercial enterprises and working in tertiary industry, as long as conditions are favorable we must aggressively pursue projects which offer short production cycles, require small investments, and promise a quick return on our investments. 4) We must set up a system at the base of which are militia units within townships, towns, and enterprises, and these units must be under county-level leadership. We must combine temporary and long-term projects; self-run and jointly run projects; and projects in the manufacturing sector and projects in the circulation and service sectors. 5) We must integrate labor and military activities in our training bases. In recent years, most counties (prefectures) in the Ningxia district have been made militia training bases. We must take full advantage of their well-developed educational facilities and favorable geographical locations to set up ventures in which labor supports military activities.

We must strengthen leadership and make decisions in a more scientific manner. The effort to establish ventures in which labor supports military activities affects the relevant party, government, and military organs as well as human, material, and financial resources. 1) We must obtain the understanding and support of relevant local agencies. Organs of the militia must take the initiative to make frequent reports to their superiors. They must incorporate ventures in which labor supports military activities into local development plans. They must coordinate different organs to bring about the formulation of a coordinated system, measures, and concessionary policies that are favorable to the development of ventures in which labor support military activities, thereby creating a favorable external environment. 2) We must do a good job with human and financial resources. In accordance with actual conditions in local militia units, while apportioning leadership responsibilities we must also optimize combinations, divide labor scientifically, and truly bring outstanding individuals into ventures in which labor supports military activities. These individuals must be ones who care about unity, display impeccable ethics, work hard, understand policy, and show a talent for management. As for the distribution of income between laborers and militia units, we must resolutely give top priority to the principle of supporting the military through labor. In the beginning, we could use the majority of income to expand reproduction so as to maintain momentum and develop to a higher level. After a venture has developed to a certain point, most income must be used to improve militia equipment. Above all, we cannot allow this income only to be used to provide better benefits to cadres, workers, and staff or to improve working conditions around the office. We must resolutely oppose individuals who are anxious for quick

gratification who would distribute all income to individuals. 3) We must make scientific forecasts and take bold decisions. The effort to establish ventures in which labor supports military activities in our district is still at an early stage. Our thinking is rather narrow and our experience insufficient. This requires, for one thing, bold decision making and the courage to take risks. This situation also requires scientific forecasts and correct decisions. In concrete, that means that we must be knowledgeable about the situation both internally and externally. We must take our own conditions into account when studying to determine what

projects are most profitable and appropriate. When there are no funds, where is the money to come from? When personnel is lacking, what is to be done? Should they be hired on contract, or obtained through exchange programs? Once a project has been selected, how do we do a good job of management and improve benefits? How do we use the profits from ventures in which labor supports military activities? Only if we have clear answers to these questions will our decisions be scientific and correct. Only then will ventures in which labor supports military activities develop smoothly and in a healthy manner.

## Li Teng-hui Card No Longer Effective in Elections

93CM0147B Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 302, 20 Dec 92 pp 25-26

[Article by Ch'en Yu-hsin (7115 5940 9515): "'Li Teng-hui Card' No Longer the Trump Card. The Predicament of the Kuomintang's Main Line Faction That the Election Results Reveal"]

[Excerpts] [Passage omitted] In order to help them out, before the election, Kuomintang chairman Li Teng-hui posed for a group photograph with party member candidates so that they could play a trump card—the Li Teng-hui card. Unexpectedly, the first group photograph was a failure, however; so, at the request of the photographer, Li Teng-hui had to spend another large amount of time on making another group photograph all over again. Nevertheless, the results of the cruel election contest showed that although Li Teng-hui still enjoys great popularity, the Li Teng-hui card no longer works.

Li Teng-hui's good friend, Shen Shih-hsiung [3088 0013 7160], lost in Nantou County despite the advantage he enjoyed as the incumbent vice-president of the Legislative Yuan. One of the main stream faction stalwarts who took part in the election on the claim of having "guidance earned by occupying high position," Gao Yuren [7559 5148 0088], labored hard to sprint ahead but placed only second in Tainan County. Li Teng-hui's representative in the Legislative Yuan, Liu Sung-fan [0491 2646 5672], who is also the incumbent president of the Legislative Yuan, sank to third place in Taichung County. Most eye-popping of all was that Li Teng-hui's most vigorous cheering section—the chi-ssu-hui [7162 1835 2585]—met its Waterloo, and also further divested itself of the outward trappings of mythology about the Li Teng-hui card used in two election campaigns.

By contrast, Yu Mu-ming [6735 1970 2494], who did not play the Li Teng-hui card and finally even played the Hao Po-ts'un card, came out ahead of the other candidates in the same party in Taipei's southern district. Wang Chien-hsuan [3769 1696 3551], who mentioned Li Teng-hui least in political meetings, and who did not appear in group photographs or shaking hands with Li Teng-hui, was the front runner in Taipei's northern district. Hsieh Ch'i-ta [6200 0796 1129], who ran his own campaign, likewise did not look to the Li Teng-hui card, yet the number of his votes exceeded those of the party nominee, Liu Jung-lung [0491 2837 7127]. In Taipei County, where the election situation was complex, Chao Shao-k'ang [6392 1421 1660]—the number one candidate among the first five candidates, three of whom were members of the Democratic Progressive Party [DPP]—openly supported Hao. The other one, Han Kuo-yu [7281 0948 3842], was supported by Huang Fu-hsing's party branch. This was yet another indicator of the fading of the Li Teng-hui card.

The obvious defeat of the Li Teng-hui card in this election provides a warning to the mainstream faction

that an internal crisis has occurred in its structure and control, and that it lacks a clear understanding of the direction in which society is going. [passage omitted]

Structurally, people like Li Teng-hui who form the nucleus of the mainstream faction, have hurriedly augmented the number of their loyal supporters as well as incorporated into their own ranks previously disgruntled stragglers in order to oppose the power of the non-mainstream faction of Hao Po-ts'un, which is composed largely of politicians whose provincial origins are other than Taiwan. Superficially, the mainstream faction is a rubber stamp corps that holds the upper hand, but actually, it is a motley crew made up of disparate elements that is increasingly being corroded by second-rate politicians, the change in the quantity ultimately producing a change in quality.

The tycoons were first to become a new force in the mainstream faction. Their opportunism and the need of the mainstream faction to expand in a hurry dovetailed; consequently, despite the mounting social opposition to the money interests, the mainstream faction has continued to nominate them as legislators as a means of winning them over. Likewise, local factions have also become the honored guests of the mainstream faction because this is the fastest shortcut to building grassroots strength. Both the tycoons and the local factions owe their rise to vote buying, however. Hemmed in by the anti-corruption election campaign, they not only cannot bring their influence to bear, but they also have been branded as money interests politicians, so naturally they will taste defeat.

The mainstream has also become a home base not only for the tycoons and local factions but for professional politicians as well, so much so that it has become a hot bed for those hanging on to power. Not very capable politicians gravitate to the mainstream for support, but they do not obtain the endorsement of society. Examples were high-ranking party worker Li Tsung-ren [2621 1350 0088], who failed in his effort to succeed himself, and Liao Fu-pen [1675 4395] who lost by a nose.

More capable professional politicians can use the chi-ssu-hui as their agent. Although they are Taiwan firsters, they have not spelled out their position clearly, however; thus, they cannot be readily identified in the political marketplace. This contrasts with the independence stand of the DPP, which is very clear, and the unification stand of the Kuomintang non-mainstream faction, which is very explicit. They have consistently tried to use the public opinion that Kuomintang supporters can coalesce to counterattack the non-mainstream faction, however. They have yet to realize that only by swallowing the bitter fruits sown by the Kuomintang supporters who have duped them for the past 40 years can they almost virtually completely defeat the leading personalities who have served successive terms of office.

A recent questionnaire survey surprisingly discovered that the DPP's three oppositions and three demands

appeal has struck a responsive chord with more than 40 percent of the public. This is a warning. The Kuomintang has by no means satisfactorily handled this latent crisis; on the contrary, Li Teng-hui has criticized the three oppositions and the three demands within the party as gibberish, and the Kuomintang's propaganda pieces likewise provide the electorate no explanation or clarification. It continues to make promises and it continues to focus on the continued deification of the Li Teng-hui card. It also shows self-satisfaction with the Li Teng-hui card in its television advertisements. Several days ago Li Teng-hui said "I do not like to be deified." As it turned out the electorate has vetoed the deification of the Li Teng-hui card in casting its vote.

In defending itself against the DPP's three oppositions and three demands propaganda attack, not only is it clear that the mainstream faction is unable to understand what the public wants, but its links with tycoons and large financial groups also places it in a moral predicament. The mainstream faction thought it could use quick independence to deliver a blow to the DPP with one hand while using quick unification to deliver a blow to the non-mainstream faction. With the spread throughout society of opposition to the money interests, the attack against the tycoons of mainstream faction personalities such as Wang Chien-hsuan and Chao Shao-k'ang, and the three oppositions and three demands of the DPP made targets of the mainstream candidates. Furthermore, the moral predicament of the mainstream faction is one of the crucial reasons why the Li Teng-hui card does not work. The strongly aware Taiwanese electorate has chosen the DPP, and the part of the electorate that seeks morality has selected the camp of the mainstream faction. The moral predicament issues have gradually removed the shine from the bright Taiwanese president. Li Teng-hui is no longer a part of the mainstream faction, and this hurts his position as a trump card for the Kuomintang. Li Teng-hui's position in the government and the party will also be complicated thereby.

In the Legislative Yuan, the generals in the Chi-ssu-hui have sustained grievous losses while the generals in the non-mainstream faction have proliferated. Possibly Li Teng-hui no longer can order about Kuomintang legislators as was his wont in the past. The fading of the Li Teng-hui card will also mean that the DPP no longer pays much attention to Li Teng-hui. The dissolution of the Li Teng-hui scenario was verified in this election, but it did not produce a negative effect.

Within the Kuomintang, Li Teng-hui will face an even more ominous situation, however. The overplaying and rampant misuse of the trump card has resulted in the mainstream faction having no weapon for insuring victory in the party congress election. The outcome of this battle shows that the mainstream faction's removal of the non-mainstream faction's grassroots party cadres did not increase its grassroots strength but revealed some of its weakness. [passage omitted]

### Article Defends Women's Vote

93CM0116B Taipei TZULI WANPAO in Chinese  
8 Dec 92 p 5

[Article by reporter Lu Tung-hsi (0712 2632 3588)]

[Excerpts] The women's vote and the Hakka vote make up a basic election theme stressed by the Democratic Progressive Party (DPP) of the Taipei metropolitan area in its campaign for seats in the national assembly. In particular, women make up an important source of votes desired by the DPP.

Over the years when the Kuomintang (KMT) mobilized its female leaders to seek votes from all levels of society, the DPP continued to be enamored with its hardline voter demands on the speechmaking front. With the exception of help from a few women's groups at the grassroots or a few ideologically progressive women, and ground broken by female fighters who had been subjected to political persecution in the past, the DPP basically had no set strategy to win the women's vote.

During the election campaign this year, except for a women's vote booster group sponsoring a meeting to introduce the DPP's candidates for the Taipei metro area, and a performance "Night of the Magnolia" tonight at the Taiwan Normal University Middle School, which are considered activities geared to garnering the women's vote, other moves the DPP has taken up have been limited.

In comparison to the "silent" treatment given the women's vote in the past, the present attitude is more aggressive and gives more importance to winning the women's vote, however.

The first person to demonstrate an obvious effort to garner the female vote is Chang Chun-hung [1728 0193 1347], a candidate for legislator representing the southern district of Taipei. He first made a declaration on social security benefits for women, which sent out shock waves even as his opponent questioned his masculine sincerity. But the writer Wang T'o [3769 2148], a friend of his for more than 10 years, praised him as a good man who is "strong outside, but softhearted inside." Of greater significance though, is a wave of "female consciousness" aroused within the DPP. Needless to say, the female candidate Fan Sun-lu [5400 1575 4845] pre-empted the issue, while the other male candidates also showed their support every time they made a speech.

The DPP's awareness of the role women plays in the voting process may be due to the fact that people realized it was always men making speeches at meetings. But the most important inspiration may have been a study by Professor Lin Chia-ch'eng [2651 0857 6134] of Tung-wu University on the voting patterns of women.

This study concludes that during elections over the years, the proportion of men voting for DPP candidates

was as high as 40 percent, but only 10 percent of women would vote DPP. [passage omitted]

It does not matter how the fight this time to win over the women is conducted, whether it is like fire, like torment, or it is being waged openly or behind the scenes. The KMT's Women's League has already held many meetings with women leaders from various levels of society throughout the province, giving them responsibility to turn out the vote. Furthermore, it is said the organization also transmitted a verbal command—to broadcast the theme: "Taiwan independence is one China and one Taiwan" to calm the fears of women with regard to their desire for peace and stability. As far as the DPP is concerned, its candidates have been making speeches at meetings with limited effectiveness, to loudly stress the importance of women's groups and call for voters, both men and women, to treat "the vote alongside the pillow" well, and "to draw out the female vote at home before any other vote."

In a flash, placing women compatriots on high ground seems to be an essential ingredient in all speeches being made in the campaign for votes. How effective the DPP can be by using such "thunder" to be recognized cannot be predicted, but there is enough sincerity. In this limited time and space, a favorable response may not be so soon in coming, but at the very least, a very great step has been made.

#### Article Criticizes Kuomintang, Centralization

93CM0147A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 300, 12 Dec 92 pp 24-25

[Article by Chi Yen-ling (4764 1693 7117): "The Kuomintang's Hunting Rifle Has Shot and Killed Another Wild Political Bird"]

[Excerpt] [Passage omitted] Organizationally, the Kuomintang is a Leninist political party. Using the theoretical rubric of the "party leadership system," it wants to build a central leadership system that is able to control the entire party and the entire nation. Relations between one political party and another, and between the party and the government are substantially a form of "democracy under centralized leadership," and frequently the "centralized" part is greater than the "democratic" part. Democracy is usually sacrificed to centralization.

Because of this characteristic, in its early days the Kuomintang looked upon "alien" dissenters outside the party as wild birds to be captured, killed, and eaten without any moral pangs of conscience, and with legal impunity.

Today, after democracy has "turned over several times," the Kuomintang's willful capture and slaying of "wild political birds" outside the party is regarded as reprehensible or even criminal, however. Nor does the law permit such things. Seeing wild birds flying about everywhere in the sky, the Kuomintang can only feel hatred in its heart

without being able to do anything about them. At most, it can only shoot off its mouth by way of venting its rage.

The Kuomintang may be utterly helpless against the wild birds flying about outside, but toward the "domesticated birds" in its own aviary, the Kuomintang does not have to care about preserving the ecology. As soon as its domesticated birds begin to act like wild birds, careening about inside the aviary, or even singing the same tune as the wild birds outside, the Kuomintang has just one course of action toward such "alien" wild birds: capture and kill them.

To paraphrase communist terminology, where the Chinese Communist political line today is "better left than right," the Kuomintang's line is "better unification than independence." Politically, the Chinese Communists "stress vigilance against the right, but mostly guard against the left," but the Kuomintang "stresses vigilance against unification (hurried unification), but mostly guard against independence (hurried independence)." This is a dominant melody that the Kuomintang Central Committee sings, and it is also the dominant melody that it wants all comrades in the party to sing together like a flock of birds.

The tune that the wild bird Ch'en Che-nan [7115 0772 3948] sang was purposely at variance with this main theme, however. It was so out of tune and off key that it grated on the ears. What a surprise that this wild bird wanted to flap his wings, crow, and peck several older birds that stuck to the main theme. After being provoked one time, then a second time by the wild bird, the Kuomintang's customary killing nature flared anew. Then it mercilessly pulled the trigger, shooting to death this party member.

The death of the wild bird set off a controversy about which was more important conservation or development, but the cries in support of conservation were clearly louder. The death of a party member also set off a controversy about which was more important discipline or democracy. In this controversy. The voice of democracy was very much weaker, however. Li Teng-hui's quotation of the literary allusion, "I love my imperial concubine, but I love discipline more" from Sun Tzu's *The Art of War* was revealing.

The millions of comrades in the Kuomintang are like the millions of birds in an aviary, however. For birds of different species to sing at the same pitch and produce a melody of the same length is something unheard of in nature. The only way of accomplishing this is to transform every single bird into a mechanical bird made from the same model.

Actually, mechanical birds are just what the Kuomintang wants. The Kuomintang is for unification, and anyone who is for independence is of an alien species. Those who want "one China and one Taiwan" or "two Chinas" are also alien. Those who stand for different things cannot co-exist. A "war of names" suffused with the flavor of T'ang-chi-ke-te [phonetic] unfolds thereby. This "holy

war" has but one goal, namely the entire party and the entire nation changing its stand from top to bottom to unification; those who refuse being slaughtered without amnesty! [passage omitted]

### Political AIDS: Deep Mutual Distrust

93CM0148B Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 301, 19 Dec 92 p 92

[Text] Taiwan is one of those unbelievable societies in the world today. There is mutual distrust—whether it is between the Kuomintang (KMT) and the Democratic Progressive Party (DPP), between the dominant party and the non-dominant party, between native Taiwanese and provincial outsiders, between the ruling faction and the independence faction, between the old and the young, or between those in power and those out of power.

Lack of trust is a dominant characteristic of Taiwan politics. It is also inflicting a fatal wound in Taiwan politics.

Distrust is suspicion. Suspicion of one another's motives and actions is a kind of dependent suspicion. I suspect you not because of what you said or done, but because this suspicion depends on your associations with a certain party, clique, and kind of people.

Suspicion creates antagonistic feelings. When a group of people with different associations form a nation state, the results of collective somnia creates a "we" syndrome which gradually polarizes into an associationism. Unfettered development of this associationism has allowed the appearance of numerous small and large basic justice cliques. As a result, not only is there a wide gulf between different parties, different cliques, and different people, hostile feelings also exist between these different entities.

On the heels of hostile feelings come opposition, conflict and "war." War is an unreasonable act, and political warfare is the result of collective unreasonableness.

Under these circumstances, you can accuse my group as the sell-out Taiwan clique, and I can call yours the Wei Chung-hsien [7614 1813 6343] bloc. You say I am in cahoots with the [communist] bandits, and I say you are inciting unrest; you call me a national disaster, and I call you a national calamity, and so it goes.

Legally, a suspect is not equivalent to a criminal. Without proof, there can be no criminal conviction. The way these epithets are tossed around on the political

stage is like prejudgments made before a trial, with the criminal label already attached.

Moreover, once a person is thus labeled, it is like a brand has been stamped on his forehead, so that wherever he went he would be treated differently. Those branded as traitors to Taiwan would never be believed, regardless of how many times they profess their loyalty and their desire to protect Taiwan. Those labeled as not in the mainstream group, no matter how sincerely and fervently they shout "Long live Li Tenghui!" would still be suspected of other motives. Should those in the ruling clique suddenly embrace those in the independence movement, they would be suspected as rake-like prongs hidden under the mattress.

After Li Teng-hui became president, he was always suspected by the non-mainstream clique as one involved in the Taiwan independence movement. It forced him to replay the tune that "the one China is the Republic of China."

When provincial outsider Chen Chang-wen [7115 7022 2429] was secretary general to a group called the Hai-chi-hui, he was suspected of selling out the welfare of the people of Taiwan, and was forced to resign.

When Li Teng-hui heard the rumor that the over 90-year-old T'ao Pai-ch'uan [7118 4102 1557] was responding to Deng Xiao-ping's proposal for one nation with two systems, he became suspicious of the old man and forced him to explain his intentions by resigning his legislative committeeman post.

After Hao Pai-ts'un [6787 2672 2625], one of the "Four Traitors to Taiwan," had been beating the drums for Taiwan independence for two years without great success, he had no alternative but to return to the fold. He implored Taiwan native Lin Yang-k'ang [2651 3152 3263] to help him by saying: "One sentence from you beats 10 from me." Finally he was forced to recant and publicly read in entirety, Lin's speech against Taiwan independence, a call for "using the Taiwanese to suppress Taiwan [independence]."

The way that mutual distrust between parties, between blocs, and between people has reached this stage is like a person infected with AIDS which has reached the critical stage. By election time, this political AIDS will flare up from its dormancy, spreading like an unstoppable epidemic that will infect others. The greater the spread of the disease organism, the greater the number of those infected, and greater will be the cost for treating the illness. It seems that this is a fate that Taiwan cannot avoid, a tragedy that even Heaven cannot help overcome.

**Public Opinion After Governor's Beijing Trip**

93CM0057B Hong Kong MING PAO in Chinese  
26 Oct 92 p 2

[Text] The Method of Survey

This opinion poll was conducted by the Independent Market Research Company, the Hong Kong Statistics, and the Commercial Research Society at the request of MING PAO, and its objective is to understand the opinion of Hong Kong people on Lu Ping's [7627 1627] commentary on Hong Kong governor's trip to Beijing.

The poll was taken on October 24, 1992 (the day after Lu Ping's press conference) by random sampling. A total of 604 citizens over the age of 15 were interviewed successfully. After subtracting those calls where people refused to answer or failed to complete the interview, the response rate of this poll is 50.5 percent.

Of those who successfully completed the inquiries, 62.6 percent said that they paid attention to Lu Ping's commentary on the Hong Kong governor's trip to Beijing. Interviewers were asked five questions in this poll. They are:

**Random Sample Interview on the Impact of Lu Ping's Commentary**

Lu Ping clearly opposes the political forum set forth in the Hong Kong governor's administrative report, what do you personally think we should do? (Then interviewees were to choose one of the answers which were read to them.)

Lu Ping clearly states that if the Hong Kong government unilaterally decides to build the airport, China will no longer support the entire airport plan, what do you personally think we should do? (Then interviewees were to choose one of the answers which were read to them.)

After Lu Ping published his commentary on the Hong Kong governor's trip to Beijing, has there been any change in your confidence in the Hong Kong governor's ability to rule Hong Kong?

After Lu Ping published his commentary on the Hong Kong governor's trip to Beijing, has there been any change in your confidence in the Chinese government's ability to protect the interests of Hong Kong people?

Has the increasingly tense relation between China and Britain affected your economic forecast for Hong Kong before 1997?

**Table 1. Lu Ping clearly states that if the Hong Kong government unilaterally decides to build the airport, China will no longer support the entire airport plan, what do you personally think we should do?**

Answer	Number of people agreeing	Percentage in total interviewers
Continue to negotiate with the Chinese	394	65.2%
Ignore China's opposition and build the airport	114	18.9%
Adopt China's opinion on financial arrangement for airport construction	46	7.6%
Other opinions	12	2.0%
Don't know/hard to say	38	6.3%
Total number	604	100%

**Table 2. Lu Ping clearly opposes the political forum set forth in the administrative report of the Hong Kong governor, what do you personally think we should do?**

Answer	Number of people agreeing	Percentage in total interviewers
Continue to negotiate with the Chinese	279	46.2%
Decide by popular vote	176	29.1%
Ignore China's opposition and do according to Chris Patten's plan	72	11.9%
Do not carry out Chris Patten's plan	13	2.2%
Other opinions	2	0.3%
Don't know/hard to say	62	10.3%
Total number	604	100%

**Table 3. After Lu Ping published his commentary on the Hong Kong governor's trip to Beijing, has there been any change in your confidence in the Hong Kong governor's ability to rule Hong Kong?**

Answer	Number of people agreeing	Percentage in total interviewers
Big change	130	21.5%
No change	299	49.5%
Little change	88	14.6%
Don't know/hard to say	87	14.4%
Total number	604	100%

**Table 4. After Lu Ping published his commentary on the Hong Kong governor's trip to Beijing, has there been any change in your confidence in the Chinese government's ability to protect the interests of Hong Kong people?**

Answer	Number of people agreeing	Percentage in total interviewers
Big change	72	11.9%
No change	221	36.6%
Little change	243	40.2%
Don't know/hard to say	68	11.3%
Total number	604	100%

**Table 5. Has the increasingly tense relation between China and Britain affected your economic forecast for Hong Kong before 1997?**

Answer	Number of people agreeing	Percentage in total interviewers
Better	78	12.9%
No change	246	40.7%
Worse	216	35.8%
Don't know/hard to say	64	10.6%
Total number	604	100%

**Referendum on Future Political System Questioned**

93CM0057C Hong Kong MING PAO in Chinese  
24 Oct 92 p 4

[Article by staff reporter Lin Wenzong (2651 2429 1350): "Referendum Is Too Hasty and Lacks Experience; Scholars Warn Against Adverse Effect"]

[Text] Heated discussions have been carried out again recently over the issue of referendum on the arrangement of 1995 election. A scholar engaged in social science study and research has warned that holding referendum in Hong Kong within a short period of time is too hasty, however. Because the arrangement of 1995 political system is too complicated and citizens do not have enough time to discuss this issue, at the current stage Hong Kong does not have ideal objective conditions to hold a referendum. But this scholar hopes that the mechanisms of referendum can strike root in Hong Kong before 1997 and pave the way for future democratic development in Hong Kong.

The idea of holding a referendum on the political system was raised by Qilian during the question and answer sessions of the administrative report of Hong Kong

governor. Li Zhuming [2621 2691 6900], chairman of the Hong Kong Alliance immediately moved the Legislative Council to hold a debate on this issue on 4 November. But because different political groups have different understandings of the content and function of referendum, Qilian will oppose Li's motion, and the Meeting Point also has reservations.

Zhong Tingyao [6988 1656 5069], researcher at the Research Center of Social Sciences of the Hong Kong University, is preparing for the "referendum" to be held in March 1993. During an interview by staff reporters, he expressed concern over whether holding a referendum within such a short period of time may be too hasty. Zhong Tingyao explained that a referendum that has restraining power on the government should be adopted in the form of legislation. Relative laws should specify the quorum of effective vote or determine whether or not to follow the simple principle that the minority is subordinate to the majority.

Zhong thinks that all these details and arrangements warrant full discussions.

Zhong Tingyao added that even if a referendum does not have restraining power but only serves as a reference, it should also possess the following objective conditions:

Issues of the referendum must be clear and simple.

Before the referendum, citizens must have enough time to understand the contents of the issues and thorough discussions must be carried out in all fields.

But with regard to the complicated issue of arrangements for the 1995 political system, it is absolutely impossible for citizens to fully voice their opinions by choosing either yes or no on the ballot. Besides, currently citizens have not had enough and mature discussions on this issue, so Hong Kong does not have ideal objective conditions to hold a referendum.

Zhong Tingyao thinks that the recent discussions of referendum have become merely a political ploy. He worries that if Hong Kong, which has no experience in referendum, hastily promotes this mechanism, it will cause adverse effect and make citizens lose confidence in this mechanism.

He said for example: If there is a low rate of participation or serious technical error, it will give those people, who do not want this mechanism to appear, a good excuse to stop this democratic tool from continuing to develop in Hong Kong. Especially since this is such a sensitive time, referendum may be mistaken by the Chinese for an anti-communism tool, thus making it more difficult to promote similar mechanisms before or after 1997. Because of this, he hopes that all fields can adopt a level-headed approach and a long-term point of view in handling the issue of referendum. Although Zhong Tingyao opposes using the method of referendum to solve the problem of arrangements for 1995 political system, he hopes that the mechanism of referendum can strike root in Hong Kong before 1997. This is also the objective of his preparation for the referendum to be held on 14 March 1993.

He thinks that after the direct election of 1991, public opinion polls and random interviews have quickly become excellent tools for testing public opinion on democratic orientation, and Hong Kong has the condition to popularize the mechanism of referendum. As a matter of fact, referendum is a very common thing in other democratic nations in the world. He hopes that this mechanism can be introduced carefully and safely so as to prepare well for future democratic development in Hong Kong. To take it one step further, it may become a reference and mirror for future democratic development in China.

Zhong Tingyao stated that for the referendum in March 1993, a professional selection committee will be screening and selecting topics for discussion. Since he does not like the voting process to become too political, he thinks that discussion topics should be centered on the people's livelihood. The Research Center of Social Sciences will initiate discussions early next year, closely control every procedure of the vote, and ensure that Hong Kong people can receive a good lesson on democracy.

### Review of Chris Patten Phenomenon in Hong Kong

93CM0057A Hong Kong MING PAO in Chinese  
2 Nov 92 p 30

[Article by Mo Tianji (5459 1131 2623): "The Irony of Democratic Hong Kong Governor—Comment and Analysis of the Chris Patten Phenomenon"]

#### [Text] Special Commentary

Chris Patten, the last governor of colonial Hong Kong, has dramatically reversed the weak political position of the Hong Kong government since the early 1980's. This is indeed a new phenomenon which can be justifiably named the Chris Patten phenomenon. Before analyzing the cause of this phenomenon, I will first briefly review the characteristics of this phenomenon.

First, Chris Patten reversed the passive political status of the Hong Kong government in the past 10 years and regained the initiative with preliminary success. The trick he used to turn passivity into initiative and weakness into strength is: getting personally involved with the masses to increase his popularity. This is consistently demonstrated through his public-oriented actions after he took over the office and his "political coquetry" after he delivered the administrative report.

In addition to getting personally involved with the masses, Chris Patten's popularity is supported by two other policies in the administrative report. One is the fairly liberal social welfare policy, and the other is the administrative policy that shows more responsibility to the citizens. The popular image plus these two policies which are inevitably popular among the general public help ensure that Chris Patten's popularity does not end up merely as a means of politician which does not deliver. This will help him substantially in building even broader political support in society.

The second characteristic of the Chris Patten phenomenon is that all existing political powers, including democratic parties, have been weakened.

"Democratic parties" have been weakened politically because Chris Patten demonstrated political initiative in his administrative report. The general impression he gave society in social policies, government administration, and political system is that he is more "democratic" than "democratic parties." In fact the political reaction to the popular vote proposal of Li Zhuming [2621 2691 6900] has fully reflected the degree of political passivity of the Hong Kong Alliance. Other democratic parties are in the same situation.

Political attack on Qilian is even more obvious. The most noticeable is that all "ringleaders" of Qilian are kicked out of the Executive Council. The price Mai Lie Fei Fei [7796 0441 5481 5481] had to pay to get in the Executive Council is that, as an important founder of the party, he too must openly divorce himself from Qilian. In the past the most important base of Qilian did not

come from citizens. It came from the government. Now that Chris Patten has changed the policy, the impact is indeed enormous, and the future is indeed in trouble. The Chinese government and pro-Chinese organizations have also been affected directly.

All in all, the Chinese government is most unhappy about the trick of democracy played by the British. The wishful thinking of the Chinese government has always been the transfer of sovereignty. Like a company changing bosses, the Chinese government thinks that now that the British are in control and that in 1997 the Chinese will take over. They think that the British can make money now but should not create a mess of democracy. This is the most important spirit of maintaining the status quo. Because of this, the Chinese government is very upset about Chris Patten's proposal on new arrangements for the Legislative Council election in 1995 and the separation of two councils.

Being upset is one thing, but what is wrong is that after the 1989 democratic movement, Hong Kong citizens have raised their political awareness and therefore naturally tend to support further democratization of the political system. This is why Chinese forces have found themselves in such a fix. Although they have voiced loud opposition to Chris Patten's new political arrangements, they are afraid to upset public opinion. Because of this, they are unable to make a clear and reasonable statement and have become almost unable to defend themselves politically.

The third characteristic of the Chris Patten phenomenon is that the Executive Council got rid of the influence of individual financial groups and has centralized the policy-making power.

One of the phenomena of Sir David Wilson's weak domestic policy is that while some unofficial council members of the Executive Council maintained a close tie

to the Chinese financial group headed by Li Jiacheng [2621 0857 6134], the Executive Council often adopted policies that were objectively favorable to Li Jiacheng. An outstanding example is that it took only three to four months for the Executive Council to approve the issue of permit for satellite TV but it has been two years since the cable TV applied for a permit.

After Chris Patten announced the reshuffle of the Executive Council, there has been a substantial change of personnel, and no single Chinese financial group has decisive influence in the Executive Council. This is one of the measures. Another one is that Chris Patten established a separate commercial commission which has a lot to do with large Chinese and foreign financial groups. This commission can be used to regulate profit distribution among large financial groups. It is indeed a better arrangement.

The objective result of combining these two measures is that the consulting role of the Executive Council has been strengthened (in fact, most new Executive Council members used to be and are accustomed to the role of governor advisors). The policy-making and administrative power of the Hong Kong governor has become unprecedentedly strong.

The expansion of power of the Hong Kong governor is the most contradictory aspect of the Chris Patten phenomenon. When citizens think of Chris Patten, who is not ashamed to personally address inquiries, as being democratic and liberal, he in fact has controlled and ruled Hong Kong in a more centralized manner. This ironic contradiction also reflects another irony, that is Chris Patten has been widely considered as being more democratic than "democratic parties" in Hong Kong. The irony here is that if he is really a democrat, how could he accept the position of a colonial governor after he lost the general election in Britain?